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ABSTRACT

The purpose of the study was to investigate the financing structure on financial performance of oil marketing firms in Mombasa County. The study adopted cross-sectional research design. The target population comprised of all small and medium Oil marketing firms operating in Mombasa County whichformed the unit of observation. The sample size was 79 arrived at using Slovin's formula from the target population. The collected data was coded and analyzed using the Statistical Package for Social Sciences (SPSS version 26) tool. From the findings, the study revealed that the internal equity financing has a significant effect on financial performance of Oil marketing firms. Also the study established that the company ploughs back the owner's earnings to fund the firm. Internal equity financing was preferred by the company so as to maintain optimal liquidity. Also it was preferred by the Oil marketers due to its cost effectiveness as revealed in the study. The need to maintain firm's control makes it prefer internal equity financing. The study also concludes that the oil marketing firms finance their deficit through debt financing so as to consolidate ownership. This was possible because other sources of financing involvds some sort of ownership dilution. Further, it was concluded that the oil marketing firms opt for debt financing because its tax deductible hence savings in tax and the firms prefer bank overdrafts as debt financing tool and that debt financing is opted by the firms since it improves firm's credit score. The study recommended that e Oil marketing firms should settle for retained earnings when in need of operations financing. This is because retained earning comes at no cost relative to other financing sources. Also the Oil marketing companies should develop retained earnings management policy to guide on how and when to use retained earnings. In extreme cases, the companies should employ retained earnings to finance expansion investments. In addition, the companies should complement other financing sources with trade credit. Trade credit should not be prioritized as a financing source but rather should be complemented with other financing methods.

Key Words: Internal Equity Financing, Debt Financing, Retained Earnings, Trade Credit Financing

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INTRODUCTION

World over, the most critical issue for every company is the choice of an optimal financing balancing. The criticality of this issue vests on the fact that capital structure influences financial performance and firm's value every industry (Tongkong, 2017). Ball (2018) posits that up to $2 Billion in losses is reported annually due to inappropriate financial structure leading to illiquidity and bankruptcy. Consequently, oil industry is one of the most dynamic industries because of the tendency of changes in the crude oil prices, difference in retailing prices, competition of market share and availability of storage space. Financing firm's assets is a very crucial problem in every business and as a general rule there should be a proper mix of debt and equity capital in financing them (Bodhoo, 2016).

Companies dealing with oil marketing operate in an environment which is dynamic and complex causing constant challenges to the marketers bordering on supplies oil and gas. Theindustry further is faced with scarcity due to the inevitable eventual depletion of the world'soil supply (PwC, 2018). With the oil prices at historic lows and with the Covid-19 supply chain disruptions, oil and gas marketing firms are in major urgency to relook at their supplychain, procurement processes and costs (Amara & Aziz, 2017).

Cheng (2019) evaluates the effects of debt and equity financing on corporate performance among the Chinese listed firms' revealing that capital structure have significantly negative consequence on corporate performance. Henceforth, the study shows that it is risky for companies to depend entirely on either debt or equity for raising capital but it is far better toraise capital by both methods, with each employed together, at the same time. This method is better as it affords the benefit of one method offsetting the problems of the other and viceversa.

Kenyan firms are facing challenges on the proper mix of capital structure which will lead to higher firm's financial performance. Several Kenyan scholars have done research to determine the optimal level of capital structure in relation to financial performance. For example, Memba, and Njeru (2018) studied on the effect of share capital finance on profitability of petroleum marketing firms in Kenya. A sample of 35 petroleum firms were studied between 2007 and 2016. The study employed descriptive statistics and uni-variate tests (t-test and Pearson correlation) in the analysis. Findings demonstrated that ordinary share capital has a negative but insignificant effect on profitability at 5% level of significance. Conceptual gaps are demonstrated on the need to broaden the analysis of equity finance in the analysis to include other internal sources such as retained earnings.

The capability that a business has in fulfilling the shareholders' interests is closely connected to its structure or composition of its capital. Amah and Ken (2016) agrees with this analogy by asserting on the relevance of financial structure in relation to the capacity of anorganization to meet its stakeholder's needs (Amah & Ken, 2016). The capital structure decisions may have influence on the achievement of a company regarding its value and concern moreover by fluctuating the expected income or the cost of capital or both.

Oil marketers are part of the oil industry's value chain that is broadly described as the downstream segment of the oil business (Seuring & Gold, 2017). They act as a link between the consumers, merchants, oil companies and the economy (retailing). The downstream activities of oil companies deal with the processing of crude oil in refineries, the distribution and the marketing activities of all the oil derived products (Raed, 2016).

In Kenya as of December 2020, there were fifty Oil Marketing Companies (OMC's) involved in importation and marketing of the four (4) main petroleum products, that is, Motor Spirit premium (MSP), Motor Spirit Regular (MSR), Automotive Diesel Oil (AGO) and Dual Purpose Kerosene (DPK). The industry also handles Liquefied petroleum gas (LPG), variouslubricants, tar and industrial fuels. Over 65% of both the local and export market is controlled by about 5 marketers as follows; Total Kenya 22.55%,

Shell 17.81%, Oilibya 10.56%, Kobil 10.55%, Nock 7.10%, the other firms had less than 4% individual market share (KPC product delivery data report, 2019).

Statement of the Problem

Ideally, financial structure decisions have an effect on the firm's value. Capital structure plays an important role in firms' financial performance provided it is utilized efficiently and in an effective manner at its optimal level. However, the question of what constitute an optimal capital structure remains unanswered and the most controversial issue in the finance circles (Gibbson Adu-Gyamfi, 2020). Moreover, the capital structure and the ability of firms to fulfill the needs of various stakeholders are strongly related (Madubuko, 2016).

The oil sector forms one of the most dynamic sectors due to its tendency of rampant variations in crude oil prices, difference in retailing prices, competition of market share and government regulations. In Kenya, the growth of oil imports by 53.8% (EPRA, 2018) the high oil taxation rate and oligopolistic nature of the industry where 65% of the oil market is owned by foreign firms has locked the upstream market from local independent oil marketers. The price regulation by Energy Regulatory Authority has made it impossible for the small oil marketers to leverage on oil pricing as a basis for growth. Further, according to Petroleum Institute of East Africa (2020) Kenyan shareholders of small and mid-tier oil distribution and marketing companies have in the last few years' relinquished ownership to foreign firms. Besides the high volatile competitive environment in the industry has seen many small oil marketers lose market share by 0.6 percent in the last three years.

Various studies have been conducted on financing structure. Doku, Adjei, Adjima and Akuma (2021) studied capital structure determinants of listed oil marketing firms in Ghana.Ondieki (2021) researched on capital structure and financial performance of Energy and Petroleum firms listed in Nairobi Securities Exchange and revealed a negative relationship between capital structure and financial performance. In contrast, study by Ogbulu and Kehinde (2017) on the influence of various determinants on forming capital structure of 110 firms listed on the Nigerian stock exchange showed that size has a positive and significant impact on capital structure. Masoud (2018) examined the determinants which cause firms to choose equity over debt of eight Libyan firms listed in the stock exchange and observed that high price-earnings ratios and high interest rates reduce the cost of equity finance which causes firms to choose equity over debt. Okayo (2017) investigated what drives performance of five star hotels and found that a positive relationship between ownership structure, capitalstructure and performances.

Thus, lack of consensus among the various scholars on the effect of financial structure on financial performance is reason enough to conduct further research on the area of study. In addition, most of the local studies have concentrated on capital structure on performance of firms in other sectors and given a wide berth on local oil marketing firms. In view of the identified empirical gaps the current study investigated the financing structure on financial performance of Oil marketing firms in Mombasa.

Research Objectives

The study investigated the effect of financing structure on financial performance of Oil Marketing firms in Mombasa County. The study was guided by the following specific objectives;

- To establish the effect of internal equity financing on financial performance of Oil Marketing firms in Mombasa County
- To determine the effect of debt financing on financial performance of Oil Marketing firms in Mombasa County
- To explore the effect of retained earnings on financial performance of Oil Marketing firms in Mombasa County
- To find out the effect of trade credit financing on financial performance of Oil Marketing firms in Mombasa County

The research Hypotheses were;

- **$H0_1$:** There is no significant effect of internal equity financing on financialperformance of Oil Marketing firms in Mombasa County
- **$H0_2$:** There is no significant effect of debt financing on financial performance of Oil Marketing firms in Mombasa County
- **$H0_3$:** There is no significant effect of retained earnings on financial performance of Oil Marketing firms in Mombasa County
- **$H0_4$:** There is no significant effect of trade credit financing on financial performance of Oil Marketing firms in Mombasa County

LITERATURE REVIEW

Theoretical Framework

Pecking Order Theory

The proponents of Pecking Order Theory are Myers and Majluf in 1984. The authors noted that, when supporting new investments firms favor internal funds as compared to external funds. If a case arises where the internal funds are not enough for a particular investment opportunity, a firm may seek other alternatives like the external fund. If it does, they will pick among the numerous outside funds in such a way as to ensure that they don't incur any additional costs regarding asymmetric information.

According to Pandey (2015), this theory is based on the assertion that managers have more information about their firms than investors. This disparity of information is referred to as asymmetric information. Other things being equal, because of the asymmetric information, managers will issue debt when they are positive about their firms' future prospects and willissue equity when they are unsure. Myers called it the "Pecking Order" theory since there is not a well-defined debt-equity target and there are two kinds of equity, internal and external,one at the top of the pecking order and one at the bottom. As a result, investors will place a lower value to the new equity issuance.

From the pecking order theory of capital structure, the equity point of view is that firms follow a pecking order of incremental financing choice that prioritizes internal funds at the top. Internal funds are own equity that includes retained earnings, according to this theory the most important component of capital structure financing is equity debt comes in when equity is not enough. This theory is important since it shows how firms define their capital structure by choosing to maintain their earnings in favor of debt so as to finance its operations. In relation to effect of capital on performance in financial perspective, the theory will help to determine whether distinct preference is given to internal finance over external finance hence it supports the debt financing and internal equity financing variables.

Market Timing Theory

Market timing theory was propounded by Baker and Wurgler in 2002. The theory claims that market timing is the first order determinant of a corporation's capital structure use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity, they just choose the form of financing which, at that point in time, seems to be more valued by financial markets. According to Baker and Wurgler (2016) firms time the market by issuing equity when share values are high and by issuing debt when share prices are low. As a consequence, a firm's capital structure simply reflects the cumulative effects of its managers' past market-timing activities.

This theory states that manager do a critically analysis and they will issue new shares if theybelieve those shares will be overvalued. On the other hand, they will buy them back when they are undervalued (Baker & Wurgler, 2016). There is a different version from this theorythat points towards capital structure dynamics that are alike. Baker and Wurgler find evidence that firms with high leverage are those that raised capital when their stock prices were low, whereas firms with low leverage are those that raised capital when their share prices were high.

The theory assumes that the economic agents are rational and after positive information, firms are normally assumed to issue equity directly because of reduced information asymmetry between the management of the firm and stockholders. To

reduce asymmetric problem after the release of positive information, direct issue to potential investor is done by the companies. When information is shared regularly, the company may increase its stock prices therefore own timing opportunities are created. In view of this, this theory is appropriate for supporting trade credit financing variable.

Trade-Off Theory

The proponent of the trade-off theory is Krauss and Litzenberger in 1973. The trade-off theory of capital structure is the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. The theory suggest that debt finance is mostly used when a firm has a great level of tangible assets while equity finance is mostly used when a firm has a great portion or level of intangible assets. Thus, a firm should maintain an optimal debt–equity ratio (Al-Tally, 2016).

The theory of trade-off states that an optimal debt amount is determined by a comparison of the costs related to debt financing against the benefits that will be obtained if debt financing is used by a firm. Therefore, a great leverage can be taken by a more profitable firm to finance its investments or operations. According to the theory of trade off, most firms try to balance between the tax advantage on the use of leverage against the costs associated with utilization of leverage as a financing means of investments in a firm (Aliu, 2016).

Conceptual Framework

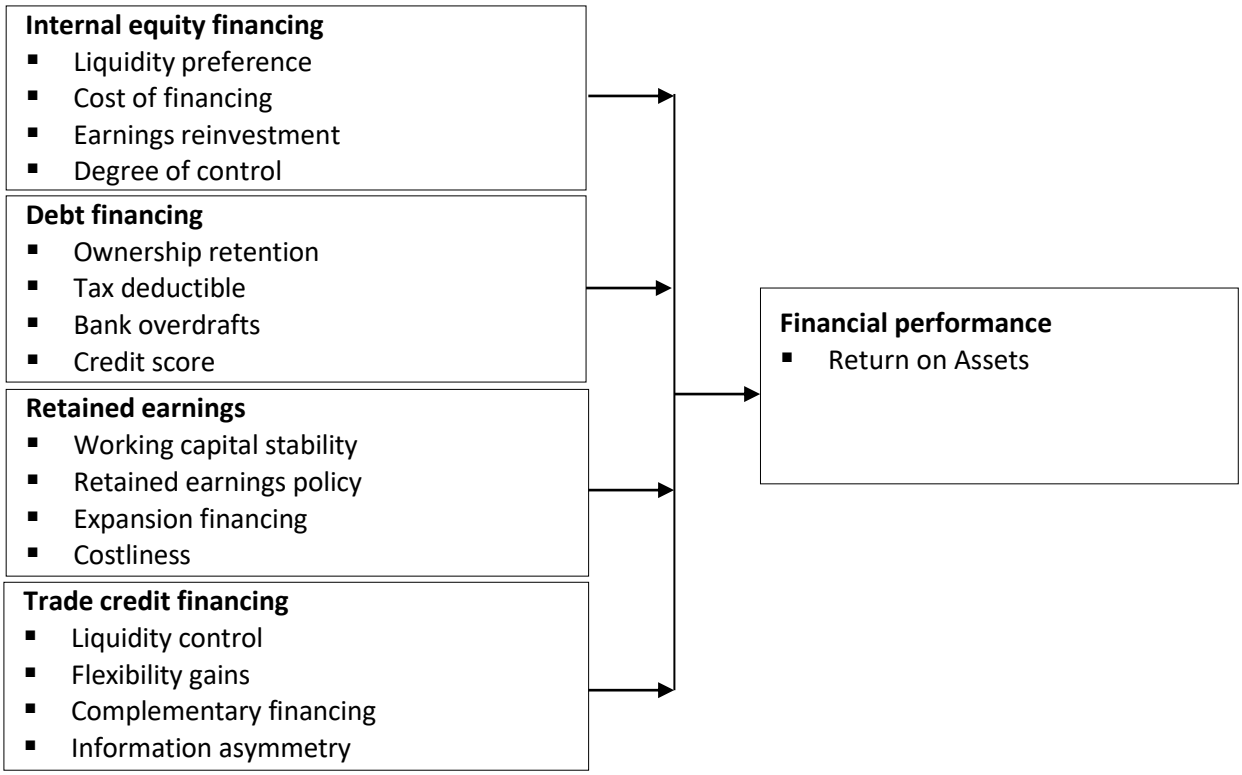

Figure 1: Conceptual framework

Review of Literature on Variables

Internal Equity Financing

Ross (2016) defined equity as the contribution of the shareholders that starts up a firm and enables it to be in operation. It is the component of capital derived by total capital minus debt. It is the

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ownership interest of shareholders that is the ordinary and preferred stockholders. The Accounting Dictionary (2017) also defines equity as the net amount of funds invested in a business by its owners, plus any retained earnings. It is also calculated as the difference between the total of all recorded assets and liabilities on an entity's balance sheet.

Equity funds are obtained by corporations from external sources through capital stock flotations and from internal sources through income retention (Creamer, Dobrovolsky, Borenstein & Borenstein, 2015). Firms have different growth patterns, there are those that have high growth opportunities, others have low or no growth opportunities at all. The growth of a firm influences the capital structure in terms of the needs of the firm which in turn dictate whether debt or equity is going to be used. Firms with expected growth are not supposed to collaterize their assets hence more equity than debt and this is consistent with a study by Rajan and Zingales (2014) which established that firms with expected growth should be equity financed than debt financed. Williamson (2015) observed that high cost ofcapital leads to costly borrowing hence equity is preferred. It is cheaper to maintain equity capital since once the shares start trading, the firm incurs no borrowing fees and floatation costs.

Debt Financing

Ross (2016) defines debt as the long term and short term borrowing that a firm has. Mostly, the long term borrowing is used to finance the capital structure of a firm and is at an interest which is pegged on to the agreement between the lenders and the firm; on the obligation ofthe firm to repay at a particular time. When it comes to increased levels of debt by a firm, managers should be very careful so as to mitigate the risk factor which may lead to bankruptcy. According to Leland and Pyle (2017) managers will take debt-equity ratio as a signal, by the fact that high leverage implies higher bankruptcy risk.

Managers of a firm prefer to use more debt to fund the business operations, according to Modigliani and Miller tax shield due to interest expense is considered to be one of the most important determinant of capital structure decision and is thought to motivate firms to use more debt. However, when a firm finances its capital structure by increasing debt, the cost of capital increases and this may bring about cash problems. If the situation aggravates bankruptcy, is bound to happen. This means that the firm has to ensure that its business operations are bringing higher returns in terms of increased profits which may in turn attract investors (Boodhoo, 2016).

As firms grow, they usually have low or high growth opportunities. Due to this, firms require financing mostly through debt. According to Datta, Iskandar and Raman (2014), firms that have high growth opportunities have more debt in their capital structure. Frielinghaus, Mostert and Firer (2015) argued that organizations are like living organisms in that they undergo through various stages of life, from birth to death. At each particular life stage organizations have typical behaviors. They asserted that more debt should be utilized by firms as they mature from birth. However, they also acknowledged that little has been done to test this theory empirically. Hovakimiam, Opler and Titman (2014) also agreed with this theory by stating that firms should use higher debt to fund assets but this should be progressively as the firm matures through its life stages.

Retained Earnings

Also referred to as revenue retention, retained earnings can be defined as the portion of a company's profit that is kept for reinvestment into the business instead of being paid out as dividends (Chasan, 2015). Retained earnings which is also referred to as accumulated earnings, is an element of shareholders' equity which represents residual income left with the company after periodic distribution of dividends to the shareholders. Retained earnings belong to the stockholders and the discretion to pay them out as dividends squarely lies withthe firm's board of directors (Bhat & Zaelit, 2015).

For a business enterprise that is always making losses, retained earnings is substituted by accumulated losses. This is an equity component that represents the total sum of loss made by a firm since its incorporation. Retained earnings is a cumulative figure for net income or loss for several periods of time. Therefore, it is possible for a firm to have retained earnings despite of recording a loss in a given period (Bhat & Zaelit, 2015). Ebrahimi and Chadegani (2017) established that there is positive correlation between share price and retained earnings. On the contrary, Thuranira (2016) contend that earnings and share price are inversely proportional. Edmans et al. (2014) on the other hand claims that stockholders invest in shares for speculative purposes. They argue that incase a firm retains a considerable amount of profits in form of retained earnings, the potential for the firm to grow is increased thus stock price also increases.

Trade Credit Financing

Trade credit is a short-term debt financing instrument that enterprises use in connection with the sale of products and the performance of services, making it a direct component of the sales contract entered into. Trade credit gives the buyer greater financing flexibility than short-term bank credit, which is often made available to enterprises as a current account credit that is tailored to their operational requirements. Trade credit offers enterprises an alternative source of finance to, and in some cases also complements, the short-term bank loan. Above all, then, the use of these sales-related credits primarily depends on the extent to which they meet enterprises' specific financing needs or on the economic advantages such credits offer supplier and buyer compared with other traditional short-term corporate financing instruments (Huyghebaert, 2017).

One key argument in favour of supplier credits is that this form of financing is initially less expensive than borrowing from a bank, because payment of the purchase price is deferred on an interest-free basis for the duration of the discount period. On the other hand, if the customer overshoots this relatively tight timeframe, the supplier credit usually turns into a rather expensive financing instrument because the effective interest rate that is actually charged when the customer forgoes the discount amounts to several times the current accountinterest rate normally charged (Huyghebaert, 2017).

Another argument in favour of supplier credit is that this instrument can also serve as an efficient means of overcoming the information asymmetry that exists between supplier andbuyer with regard to the quality of the products and services offered. If the supplier gives the buyer a payment deferral after providing the product, the supplier can largely dispense with furnishing detailed information on the quality of the product, as the buyer is able to gain an accurate impression of the quality prior to paying the invoice.

Through the redistribution of liquidity within the corporate sector, the resulting trade credit chains play an important part in safeguarding the flexibility and stability of corporate financing. Because trade credit is collateralized by goods, it is closely interlinked with the business cycle (Huyghebaert, 2017). Not least, it facilitates short-term start-up financing when working capital is needed at the beginning of a cyclical recovery phase. Use of supplier credit is also an attractive financing instrument from the customer's viewpoint as it entails little effort and gives a great deal of flexibility. Financing provided by banks might call for lengthier negotiations.

Financial Performance

Erasmus (2015) posits that financial performance is considered as the best possible way of as to how a firm generates its' revenues through utilization of its assets. Metcalf and Titard in 1976 mentioned that performance in financial perspective involves the act of carrying out financial activity so as to realize the financial objectives within a given time period. It is not only used to determine a given period financial status but also the results of its operations and policies through monetary terms. These measures are important since they can be used for comparison between firms which are on the same

or different industry.

The return on equity (ROE) is one of the key profitability measures that a business enterprise publishes annually. The return on equity measures the efficiency with which a firm utilizescapital raised by its shareholders to grow and dictates remuneration to be paid to shareholders in form of dividends or interest. Thus, return on equity articulates the extent to which managers of a business enterprise have succeeded to maximize shareholders' wealth.

The return on assets formula, sometimes abbreviated as ROA, is a company's net income divided by its average of total assets. The return on assets formula looks at the ability of a company to utilize its assets to gain a net profit (Heikal, Khaddafi & Ummah, 2014). Efficient utilization of assets can be used to gauge the effectiveness with which a firm is utilizing its assets to generate income. The ratio used to measure this effectiveness is referred to as Return on Assets which is computed by dividing net profit over total assets. This ratio has a positive relationship with a business enterprise's future potential growth (Jami & Bahar, 2016).

Empirical Review

Nima, Mohammad, Saeed, and Zeinab (2016) did a study on the relationship between capital structure and firm performance of Tehran Stock Exchange Companies for the periodbetween the years 2006 to 2011. Their study utilized three performance indicators which include Gross Profit Margin, Return on Assets as dependent variable and three capital structures including long term debt, short term debt and total debt ratios as independent variable. The study reported a significant relationship between dependent and independent variable, except long term debts with gross profit margin.

Nzau, Kungu, and Onyuma (2019) studied the effect of bond issuance on financial performance of firms listed in Nairobi Securities Exchange. The study adopted descriptive research design. The study collected dated from all the six firms that had issued bonds in tranches or additional bonds within the period 2008 to 2017. Data was analyzed via regression to assess whether bonds issuance has any effect on the financial performance of firms listed on NSE. Results indicate that about 75.4 percent of variance in financial performance could be explained by bond issuance as characterized by bond price, bonds coupon rate, bond proportion, and bond yield to maturity. Bond proportion and bond yield to maturity were found to have a statistically significant effect on financial performance. The study concluded that bond issues affected financial performance of listed firms in Kenya.

Karuma (2018) studied effect of debt financing on financial performance of manufacturing firms in Nairobi securities exchange. This research sought to investigate the effect of short term debt, long-term debt, interest rates and corporation tax rates on the financial performance of manufacturing firms listed in Nairobi Securities Exchange during a five year period of 2013- 2017. The study employed use of multiple linear regression models. Descriptive statistics, correlation and regression analysis were used to analyze the data. Statistical Package for the Social Sciences (SPSS) software was used to analyze the data. Accounts payable was found to be significant to ROA, bank overdraft was found not to be significant to ROA while debentures were found to be significant to ROA.

Nyanamba (2018) carried out a study on the influence of capital structure on financial performance of Craft Micro Enterprises in Kenya. The study adopted descriptive research design. The study was a survey of soapstone micro enterprises in Tabaka Town and the woodcarving micro enterprises in Wamunyu Location. The target population for the study constituted all the 2334 craft micro enterprises. Data were gathered data using a semi- structured questionnaire and then analyzed by use of descriptive and inferential type of statistics. The findings of the study revealed that, internal equity financing, debt financing and retained earnings have significant influence on the financial performance of craft microenterprises.

Tonui (2018) did a study on the effect of capital structure on value of firms listed on the NSE. The study focused on the 40 non-financial firms and utilized secondary quantitative data obtained by abstraction method from financial statements for the 40 listed firms. The study used descriptive and inferential statistics to analyze the data. The research findings showed that short term debt to equity played a big role in enhancing listed companies performance.

Oguna (2016) did a study on the effects of capital structure on financial performance of firms listed under manufacturing, construction and allied sector at NSE. The study adopted descriptive research design. The study targeted 14 firms listed at the NSE drawn from manufacturing, construction and allied sector. The study used secondary data and utilized panel data. The study used SPSS to analyzed collected secondary data. The study findings established that current debt and long term debt affect return on equity.

METHODOLOGY

This study utilized cross-sectional research design. According to Petroleum Institute of East Africa (2022) there are 6 oil marketing firms in Mombasa as of December 2021. Thus the unit of observation for the study comprised of all small and medium Oil marketing firms operating in Mombasa County which formed the unit of observation. The unit of analysis was the management staff drawn from operations, finance and accounting. The sample frame for this study was small and medium Oil marketing firms operating in Mombasa County. The study employed stratified sampling technique.

Primary data was collected using questionnaires which were structured with a five point Likert scale in order to measure allvariables.

The data collected was coded and analyzed using the Statistical Package for Social Sciences (SPSS version 26) as a data analysis tool. Both descriptive and inferential analyses were generated from the collected data. Descriptive statistics was used as a measure of central tendencies and measures of dispersion (mean and standard deviation). Regression analysis was conducted to test whether the strength of the relationship between the independent variables and the dependent variable are statistically significant. The regression analysis was guided by the following analytical model:

$$Y = \beta\Theta + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where:

Y= Financial performance

βΘ = constant term indication the level of financial performance in absence of any independent variables

Then:

β1, β2, β3 and **β4** are the coefficient function of the independent variables,

X1= Internal equity financing

X2= Debt financing

X3= Retained earnings **X4**= Trade credit financing**ε** is the error term

FINDINGS AND DISCUSSION

Descriptive Statistics for Financial Structure

The broad objective of this study was to determine the extent to which financial structure affects financial performance of Oil marketing firms in Mombasa County. In order to achieve this objective, respondents were required to indicate the extent to which they had adopted selected aspects of financial structure on a five-point Likert scale where 1 represents strongly disagree and 5 represents strongly agree. The results are discussed in the following subsections.

Internal Equity Financing

Respondents were required to indicate the extent to which internal equity financing aspects affect financial performance. The results were shown in Table 1.

Table 1: Internal Equity Financing

	N	Mean	Std. Deviation
The company reinvests back theowner's earnings	73	3.94	.619
The internal equity financing is preferred by the company so as to maintain optimal liquidity	73	3.91	.856
The company uses internal equityfinancing due to its cost effectiveness	73	3.88	.492
The need to maintain firm's control makes it prefer internal equity financing	73	3.81	.535
Average	73	3.9413	.47684

From Table 1, the results revealed that respondents agreed to the statement that the company reinvests back theowner's earnings with a mean of 3.94 (SD = 0.619). Respondents also agreed to the assertion that the internal equity financing is preferred by the company so as to maintain optimal liquidity as shown by a mean of 3.91 (SD = 0.856). The practice "the company uses internal equity financing due to its cost effectiveness" had a mean of 3.88 (SD = 0.492) implying that respondents were in agreement. Respondents agreed to the statement that the need to maintain firm's control makes it prefer internal equity financing with a mean of 3.81 (SD = 0.535).

Debt Financing

Respondents were required to indicate the extent to which debt financing aspects affects financial performance. The results are shown in Table 2.

Table 2: Debt Financing

	N	Mean	Std. Deviation
The firm finances its deficit via debt financing to consolidate ownership	73	4.17	.647
The firm opts for debt financing since its tax deductible hencesavings in tax	73	3.84	.628
The firm uses bank overdrafts as debt financing tool	73	3.69	.693
Debt financing is opted by the firms since it improves firm'scredit score	73	3.97	.609
Average	73	3.8438	.51490

From Table 2, the descriptive results indicate that respondents agreed to the statement that the firm finances its deficit through debt financing so as to consolidate ownership with a mean of 4.17 (SD = 0.647). The statement that the firm opts for debt financing because its tax deductible hencesavings in tax had a mean of 3.84 (SD = 0.628) meaning that respondents were in agreement with the statement. Respondents agreed to the statement that the firm uses bank overdrafts as debt financing tool and that debt financing is opted by the firms since it improves firm'scredit score as shown by a mean of 3.69 and mean of 3.97 respectively.

Retained Earnings

Respondents were further required to indicate the extent to which retained earnings affect financial performance of Oil marketing firms. The results are shown in Table 3.

Table 3: Retained Earnings

	N	Mean	Std. Deviation
Retained earnings are to finance dayto day operations of the firm	73	3.53	1.016
The company has a retained earnings management policy	73	3.75	.622
Retained earnings are used by the firm to finance its expansion investments	73	3.75	.880
The firm uses retained earnings due to its cost effectiveness	73	3.81	.780
Average	73	3.7109	.60278

From Table 3 it can be observed that respondents agreed to the statement that retained earnings are to finance day to day operations of the firm with a mean of 3.53 (SD = 1.016). Respondents also agreed to the statement that the company has a retained earnings management policy with a mean of 3.75 (SD = 0.622). Further, respondents agreed with the statement that retained earnings are used by the firm to finance its expansion investments and the firm uses retained earnings due to its cost effectiveness as indicated by a mean of 3.75 and mean of 3.81 respectively.

Trade Credit Financing

Respondents were required to indicate the extent to which trade credit financing aspects affect financial performance. The results are shown in Table 4.

Table 4: Trade Credit Financing

	N	Mean	Std. Deviation
The firm's financial flexibility has been enhanced by trade credit	73	3.97	.595
The firm complements other financing sources with trade credit	73	4.22	.491
The liquidity issues in the firm isaddressed by taking trade credit	73	4.11	.554
Trade credit is opted by firm due to its less expensive feature	73	4.13	.574
Average	73	4.0250	.43030

From Table 4, the descriptive results revealed that respondents agreed that the firm's financial flexibility has been enhanced by trade credit as shown with a mean of 3.97 (SD = 0.595). Respondents agreed to the assertion that the firm complements other financing sources with trade credit and that the liquidity issues in the firm isaddressed by taking trade credit as indicated with a mean of 4.22 (SD = 0.491) and mean of 4.11 respectively. Respondents were in agreement with the statement that trade credit is opted by firm due to its less expensive feature as shown with a mean of 4.13.

Multiple Regression Analysis

A multiple regression model was adopted in the study to establish the statistical relationship between the independent and the dependent variables.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.772[a]	.596	.517	.078210	1.9750

a. Predictors: (Constant), Internal equity financing, Debt financing, Retained earnings, Trade credit financing

b. Dependent Variable: Financial performance

The model summary results in Table 5 showed a moderate regression between financing structure and financial performance of selected beach hotels in Mombasa. In the model summary, the R^2 is 0.596 which indicates that independent variables (internal equity financing, debt financing, retained earnings and trade credit financing) explain 59.6 per cent variation in financial performance, while the remaining 40.4% are un-modelled determinants.

Table 6: Model Validity (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.455	4	6.614	25.053	.001[b]
	Residual	17.943	68	0.264		
	Total	44.398	72			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Internal equity financing, Debt financing, Retained earnings, Trade credit financing

From Table 6, it can be observed that the p value (0.001) is less than the level of significance (0.05) implying that the overall model is significant.

Table 7: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.417	.227		1.834	.008
	Internal equity financing	.273	.146	.301	1.870	.013
	Debt financing	.549	.177	.984	3.101	.000
	Retained earnings	.321	.136	.366	2.369	.026
	Trade credit financing	.578	.317	.409	1.823	.000

a. Dependent Variable: Financial performance

The derived regression coefficients of the model are:

$$Y = .417 + .273X_1 + .549X_2 + .321X_3 + .578X_4$$

The regression results showed that independent variables had significant value below 0.05 meaning that they were all significant. From the results, it showed that holding all factors constant at zero, the change in financial performance would be .417. Further, the regression results showed that a unit change in internal equity financing would lead to 0.273 unit change in financial performance. A unit change in debt financing would lead to 0.549 unit change in financial performance. Further, a unit change in retained earnings would lead to 0.321 unit change in financial performance and finally, a unit change in trade credit financing would lead to 0.578 unit change in financial performance.

Discussion of Key Findings and Hypothesis Testing

The regression coefficient results was used to achieve the study objectives. This was achieved by considering the P-values that are associated with the relevant regression coefficients and t-values. The first objective of the study was to find out how internal equity financing on financial performance. The regression results for internal equity financing was β_1=0.273, t=1.870, and p<0.05 showing that there was a positive and significant relationship between internal equity financing and financial performance. It is concluded that a unit change in internal equity financing would lead to 0.273 unit change in financial performance. On hypothesis testing, since the P-value is less than 0.05, null hypothesis that internal equity financing has no significant on financial performance is, therefore, rejected.

The second objective of the study was to investigate how debt financing affects financial performance. According to the regression analysis's findings (β2 = 0.549, t=3.101, p<0.05), debt financing significantly affects financial performance. According to the study, a unit increase in debt financing would lead to a positive increase in financial performance by 0.549. The null hypothesis that debt financing has no significant effect on financial performance is, therefore, rejected since the p-value is less than 0.05.

Third objective of the study sought to investigate the effect of retained earnings on financial performance of Oil marketing companies. According to β3 = 0.321, t=2.369, and p<0.05, the regression analysis results showed a substantial positive relationship between retained earnings and financial performance. According to the findings, a unit increase in retained earnings would lead to an increase in financial performance by 0.321. The null hypothesis that retained earnings has no significant effect on financial performance is, therefore, rejected since the p-value is less than 0.05.

Fourth objective of the study sought to establish the effect of trade credit financing on financial

performance. According to regression analysis, trade credit financing and financial performance had significant and positive connection (β4 = 0.578, t=1.823 and p<0.05), which implies that a unit increase in trade credit financing would lead to an increase in financial performance by 0.578. The null hypothesis that trade credit financing has no significant effect on financial performance rejected since the p-value is less than 0.05.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that the internal equity financing has a significant effect on financial performance of Oil marketing firms. Also the study concludes that the company ploughs back the owner's earnings to fund the firm. Internal equity financing is preferred by the company so as to maintain optimal liquidity. Also it is preferred by the Oil marketers due to its cost effectiveness as revealed in the study. The need to maintain firm's control makes it prefer internal equity financing as concluded in the study.

The study concluded that debt financing has a significant effect on financial performance of Oil marketing firms. The study also concludes that the oil marketing firms finance their deficit through debt financing so as to consolidate ownership. This is possible because other sources of financing involves some sort of ownership dilution. Further, it was concluded that the oil marketing firms opt for debt financing because its tax deductible hence savings in tax and the firms prefer bank overdrafts as debt financing tool and that debt financing is opted by the firms since it improves firm'scredit score.

The study concluded that retained earnings has significant effect on financial performance of Oil marketing firms. Also it is concluded that retained earnings are to finance day to day operations of the firm. The Oil marketing companies possess retained earnings management policy and they use retained earnings solely to finance expansion investments and other capital expenditures. It is concluded that Oil marketing firms prefer retained earnings over other financing forms due to its effectiveness on cost.

The study concluded that trade credit financing has significant effect on financial performance of Oil marketing companies. It is concluded that the firm's financial flexibility has been enhanced by trade credit. Also the Oil marketing firms complement other financing sources with trade credit. This implies that trade credit is not the first financing option for the Oil marketers. However, trade credit financing is employed by the Oil marketing firms to address liquidity issues and also because this form of financing is less costly relative to other financing sources.

The study recommended that the Oil marketing firms should design a robust policy to enable owner's earnings plough back to finance companies investments. Also it is recommended that the Oil marketing firms should give priority to internal equity financing over other financing forms to maintain optimal liquidity as it is cost effective and easily available. The companies should use internal equity financing when in need of maintaining control.

The study recommended that oil marketing companies should finance operations deficit through use of debt financing since it leads to ownership consolidation as compared to other financing forms. The reason for this argument lies in the fact that other major financing sources involves some degree of ownership dilution. It is recommended that oil marketing firms opt for debt financing because its tax deductible hence savings in tax and the firms prefer bank overdrafts as debt financing tool.

The study recommended that Oil marketing firms should settle for retained earnings when in need of operations financing. This is because retained earning comes at no cost relative to other financing sources. Also the Oil marketing companies should develop retained earnings management policy to guide on how and when to use retained earnings. In extreme cases, the companies should employ retained earnings to finance expansion

investments.

The study recommended that the companies in the Oil sector should use trade credit to enhance financial flexibility. Trade credit comes at nearly no cost and the Oil marketing firms should take advantage of trade credit to solve liquidity problems. In addition, the companies should complement other financing sources with trade credit. Trade credit should not be prioritized as a financing source but rather should be complemented with other financing methods.

Suggestions for Further Study

This study was limited on investigating the financing structure in the context of Oil marketing companies financial performance. However, the financing structure constructs adopted in the current study only explained 59.6% change in financial performance of Oil marketing firms. It is on this basis that the researcher recommends a study be carried out on other possible financing structure aspects with a view to deriving a plausible relationship with financial performance of not only Oil marketing firms but other firms in other sectors like manufacturing.

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