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Influence of Medium-Term Financing on Profitability of Supermarkets in Central Business District Nairobi City Kenya

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Abstract:- Medium-term finances affect the profitability of supermarkets. Supermarkets have been struggling and experiencing financial uncertainty that has impacted their operations leading to bankruptcy in some of the supermarkets. The empirical studies have shown that the issue has not received attention from scholars in Kenya and especially for the supermarkets and that none of the studies have focused on medium-term financing and the profitability of supermarkets in the central business district of Nairobi city, thus the existence of a knowledge gap which need to be filled. Therefore, the study sought to fill the gap by assessing the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya. The study was guided by the theory of Modigliani and Miller. A cross-sectional survey and a descriptive research strategy were utilized in this study. The target population of this study was 18 supermarket branches in Nairobi's central business district Kenya. The study specifically targeted the 18 branch managers and 18 accountants of these supermarkets. The study adopted the census sampling technique. Questionnaires were used to collect primary data and secondary data from financial statements and yearbook reports of supermarkets from 2016 to 2018. Data were analyzed using correlation and regression models with the support of the Statistical Package for Social Sciences (SPSS). Descriptive and inferential statistics specifically, mean, standard deviation and trends analysis were conducted. Statistics were presented in tables and figures. The correlation outcomes revealed that medium-term financing and profitability were positively and significantly correlated ($r = 0.579$, Sig < 0.05). Regression results showed that medium-term financing significantly influenced the profitability of supermarkets in the central business district of Nairobi city Kenya ($\beta=0.650$; Sig $<$ 0.05). The study concluded that medium-term financing had a significant and positive relationship with the profitability of supermarkets in the central business district of Nairobi city Kenya. The study recommends that supermarket managers should strive to maintain an appropriate medium-term funding level to help increase profits and growth of supermarkets, therefore supermarkets should be averagely leveraged.

Keywords:- *Asset Finance, Lease Finance, Hire Purchase Finance, Profitability.*

I. INTRODUCTION

A. Background to the Study

Medium-term financing is commercial loans provided by financial organizations and other financiers over a period between two to five years, primarily to finance the acquisition of fixed assets and development projects. Medium-term financing is ideal for developing, a profits-positive organization that requires capital for further development. These loans are hire-purchase finance, lease finance, sale-and-leaseback, asset-based finance, and commercial property finance.In developed nations finance leasing was observed as a significant source of external funding for business firms which grows the accessibility of investment, increases operational effectiveness, and, thus conclusively subsidizes growth. Further leasing affected both organizational growth and Gross Domestic Product (GDP) growth (Zhang, 2018).

A finance lease is asset-based financing, which enables small and medium-sized enterprises (SMEs) to acquire short and medium-term financing.Finance lease is commonly utilized by rapidly-growing SMEs, especially in European nations. Leasing is viewed as one of the dynamic financing tools for SMEs in European nations which enables them to the similar to the investment duration of leased properties (Abbasi, Wang, & Abbasi, 2017).

Hire-purchase is a category of leasing wherein the lessee and the lessor has the possession share in the asset, and with each disbursement, a great stake of the proprietorship of equipment is retained by the lessee. In various states, hire-purchase is common for funding small-scale retail items, like sewing machinery, motorbikes, and fridges (Jabeena, Alib & Alic, 2021).

According to the European Investment Bank Investment Survey 2018, there was a growth in the significance of hire purchase and leasing as a source of asset finance, and the utilization of leasing and hire purchase finance intensely increased for non-building fixed capital assets. The proportion of investment on small assets financed using hire purchase and leasing increased by 8.5 ratio points in 2018 (Lawlesset al., 2020).

In China, public-sector enterprises' involvement in finance leases heightened with their motivations to increase the organizations' size. Public-sector enterprises managements achieve more reimbursement and subsidizations through developing their organizations with finance leases. Public-sector enterprises with extreme borrowing expenses structure additional finance lease strategies which increment their economic leverage and, eventually decrease their organization value (Zhang & Liu, 2020).

A study in China by Zhao et al., (2021) found that medium-term borrowing can provide a long-term and constant source of capital for the public economy and benefit China's national economy report a fair and moderate level of liquidity, further enhancing the liquidity and steadiness of traditional financial policy.

In India, Non-Banking Financial Intermediaries (NBFIs) entail mostly organizations that operate the trading of hire purchase finance, asset funding, leasing, investment, and property, plants, and equipment leasing and mortgage which support saving and investment in the economy and subsidize to development in the economic development of India. The review assessed that almost 60% of all trucks traded in India were through hire purchase schemes (Nazneen & Dhawan, 2018).

In India, small and medium-sized enterprises (SMEs) prefer internal capital preceded by medium-term loans and funds from government and financial organizations, and ultimately preferred is external equity. Medium-term funds are essential to finance the acquisition of fixed assets (Baker, Kumar & Rao, 2020).

Co-operative credit organizations in India supply medium-term loans to farming and non-farming sectors to increase the financial development of the nation, particularly in farming and allied sectors. They safeguard farmers from agricultural underdevelopment and rural indebtedness. Medium-term finance assumes a significant part in improving agronomic production, efficiency and thus moderates the distress of the farmers (Shailaja & Hebbar, 2018).

In Bangladesh, medium-term financing assumes a leading capacity in producing income over long-term financing. The incomes from short and medium-term financing empower the Islamic banks of Bangladesh for determining a constant dividend strategy, further that the investment portfolio of these banks primarily focuses on short and medium-term financing which gives to earning suitable incomes which guarantee constant dividends to the stockholders (Hossain & Kabir, 2017).In Bangladesh, medium-term financing is distributed to the consumer to satisfy the working capital necessities of the corporation through conventional banks further developing the development of economy. Traditional banks equipped farmers with medium-term loans for fostering additional lands and procurement of equipment, compensation business obligations, and acquisition of a franchise (Islam & Shafiuddin, 2020).

In Pakistan, Zarai Taraqiati bank furnishes medium-term finances to the agriculturalists for fixed investment that is utilized to secure fixed assets like tractors, water pumps, tube wells, and other farming-related machinery. They establish that the short-term finances strongly influence wheat production than the medium-term finances (Chandio, Jiang, Wei, & Guangshun, 2018).

In Pakistan leasing and hire purchase funding is greatly favored by small and medium-sized enterprises that are operational in the service sector and agribusiness sector. Small and medium-sized enterprises in Pakistan which are possessed by individuals prefer backing through leasing and hire purchase and angel financing (Jabeena, Alib & Alic, 2021).

In Slovakia, the increase in medium-term finances could be accredited to investments in long-term physical assets or the procurement of farmsteads which has been developing recently. Medium-term finances developed more swiftly than short-term finances as the development of medium-term loans was endorsed through low-interest rates. Medium-term and long-term bank loans serviced to co-finance projects from Rural Development Program (Toth, Rabek, & Strapekova, 2020).

A review in Albania by Korbi and Lleshaj (2020) revealed that the finance leasing portfolio outweighed funding for individual and work vehicles. They contend that the disuse of finance leasing as a medium-term financing source compels businesses in Albania incapable to diversify the expense of their capital.

In Portugal, a study conducted in Lisbon County concluded a favorable and statistically significant connection between small and medium-sized enterprises' size and medium-term liability with small and medium-sized enterprises in Lisbon County being the most profit-making (Matias & Serrasqueiro, 2017).

In Vietnam, real estate organizations that improve capital in term of medium-term financing has revealed an increase in their profitability (Bui, 2020).A study in Lampung Indonesia indicated that asset financing positively affected economic growth and working capital funding had a significant influence (Suwarto & Japlani, 2021).

From Sub-Saharan Africa to the Indian continent, leasing and asset investment organizations are undertaking vital and advanced work to finance basic properties for low-paid households, non-formal borrowers, and non-formal consumers. Asset financing is facing different difficulties in successfully controlling credit risk as it caters to low-paid households, non-formal borrowers, and non-formal consumers, further it lacks conservative risk-controlling systems, poor capability, absence of access to markets, absence of proper credit histories, and low value of properties (Soursourian, et al., 2021).

In Sub-Saharan Africa, a large number of consumers are gaining from the development of more comprehensive asset finance business models. New improvements in asset finance business models indicate to control difficulties in reaching low-income houses, with products customized to the asset being funded. Assets financing supports poor individuals' holding opportunities and growing strong, with impacts that advance numerous Sustainable Development Goals (Mattern, 2020).

In Cameroon, Nigeria, and South Africa corporations' avenue to fund in the kind of asset finance improves their development (Fombang & Adjasi, 2018).South Africa's retail sector medium-term financing remains a significant obstacle for the new and black-owned supermarkets for promoting investment and development, competitiveness, and invention.In South Africa, medium-term debt and profitability were found to be adversely related. The relationship between business age and debt was viewed to positively influence medium-term debt (Zunckel & Nyide, 2019).

In Zambia, supermarket chains are facing barriers in accessing appropriate capital for investment in property, plants, and equipment. Investment in property, plants, and equipment is one of the dynamics probable to impact local businesses' involvement in supermarket value chains. Possessing the necessary capital is thus fundamental for supermarkets to develop and secure improved machinery and innovation to improve their manufacturing capacity, packaging, product quality, and proficiencies (Ziba & Phiri, 2017).

The leasing business in Nigeria has registered a prominent improvement of 13.5 percent in 2019. This development can be accredited to various elements which comprehend the growing demand for leasing services, innovative competitors in the leasing business, and improved understanding of the principles of leasing as an exceptional funding instrument (Equipment Leasing Association of Nigeria, 2019). The leasing business in Nigeria is perceiving improved interest for assets under a given dominance of increasing nationwide prices of purchase and scarcity of abroad trade for imports. Medium-term financing remains a significant obstacle in controlling the provision of leases to general finance property, plants, and equipment and limiting leases of exclusive assets (Abdulkarim, Mohammed & Musa-Mubi, 2020).

In Nigeria accessing lease finance by small and medium enterprises is challenging because of substandard and incomplete financial information, the significant expense of lease awareness, low lease perception, and corruption propensities of the financial organizations, though, they prefer lease finance as a substitute source of financing (Olawale, 2019). In Nigerian quoted conglomerates lease financing option was recommended as one of the sources of debt financing to boost the capital of firms to enable them to absorb losses, multiply fixed assets and grow continuously. Leasing suits the level of development of the Nigerian financial market and should be utilized as debt financing in order to boost the capital of firms for enhanced financial operation. Lease financing had a positive and insignificant impact on profitability of Nigerian quoted conglomerates (Atseye, Mboto, & Lawal, 2020).

In Ethiopia and Guinea, the world bank group is vindicating regional governments to unveil and nurture leasing activities, inviting investors, strengthening market sensitivity and capability, and heightening access to funding for SMEs through finance lease, hire purchase,agri-leasing, and micro-leasing (Megersa, 2020).

In Kenya, a study by Ndungu, Gichohi, and Mutea, (2020) revealed that asset-backed securities can be utilized to speculate on business performance and that asset-backed securities positively influenced the business performance of registered business banks in Kenya. Selling of asset-backed securities in the capital markets by banks causes their financial profitability to improve thus enlisting them in an important environment concerning evolving the economy.

A study in Kenya concluded that lease financing is significant in safeguarding a business's survival. The study further concluded that lease financing had a positive relationship with profits and most businesses are funded mostly through leases, trade credit, retained earnings, and debt (Kiragu & Wasike, 2019).

A study conducted in Meru town by Kathure, Waweru, and Shano (2021) found that asset-based loaning is essential in credit availability by small and medium-sized enterprises. The study revealed a favorable correlation between asset-based loaning and credit availability of micro and small enterprises in Meru Town, further micro and small enterprises lack asset-based loaning owing to an absence of satisfactory security to insurance the credits.

In Kenya's retail sector acquirement of medium and long-term financing finance has proved to be challenging owing to loan terms that are perceived adverse, additionally significant expense of credit, insufficiency of tangible collateral, and inaccessibility of medium and long-term funding is a significant limitation deterring the development of retail and small and medium-sized enterprises sectors in Kenya. Moreover, most formal financial organizations recognize small and medium-sized enterprises as risky and commercially unfeasible because of high managerial expenses related to the loan amount given (Auma, 2017).

Kenya's biggest supermarket has been experiencing economic sustainability challenges that have impacted its operations. In particular, Tuskys, Nakumatt, and Uchumi supermarkets have constantly delayed in paying their suppliers. They are also struggling in discharging bank debts, thus indicating signs of bankruptcy and being financially unviable. Collapses by supermarkets have been attributed to capital limitations that deter supermarkets from meeting financial obligations. The most barriers to exchange confronting retailers in Kenya are lack of constant financial capability, corporate governance resultant from infirm administration structures, and human capital (Mwangi & Muturi, 2018).Poor performance by supermarkets in Kenya is due to disorganized corporate governance practices and monetary limitations identified with quick development and weak sales capacity (Cytonn Investments, 2018).

In Nairobi County, a combination of dynamics including escalating debts, tax issues, gigantic internal losses, gross mismanagement, and imperfect strategic decisions are the fundamental motives behind the slow death of gigantic supermarket chains in Nairobi County. However, despite increased sales of supermarkets they continue to experience difficulties with their profitability threatening their closing, like Tuskys, Nakumatt, and Uchumi shut down despite having outlets all over the country (Cytonn Investments, 2018).

A study in Nairobi County by Gitau (2020) showed that supermarkets' capital allocation and strategic communication positively influenced the performance of supermarkets in Nairobi County.According to a study in Nairobi County, investment budgeting approaches cannot forecast the capital structure of supermarkets, and failure to match investment and financing can lead to cash-flow and solvency difficulties for the supermarkets. Further argued that the issue prompting the bankruptcy of the supermarkets in Nairobi County was aggressive development (Ali, 2021).

In Nairobi, supermarket profitability focuses on gross sales, costs of sales, operating expenses, fixed assets, and outlay of investment financed in supplies. In Nairobi, supermarkets have been performing inadequately due to a lack of financial management which has prompted accrued outstanding invoices from providers. Between 2018 and 2020 the retail performance in Nairobi city reduced by 5.4 percent and 4.7 percent respectively (Kenya National Bureau of Statistics [KNBS], 2020).Against this background, current research aims to investigate the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya.

B. Statement of the Problem

The retail sector is marked as a trade engine for economic growth in our Vision 2030. The sector plays a vital role in ensuring the exchange of money in the market. According to the Kenya National Bureau of Statistics, the retail and wholesale sector is the 5th largest contributor to Kenya’s GDP and accounted for 8.4% of Kenya’s GDP.Retail and wholesale sectors have high levels of value-added and therefore the potential for delivering high economic development rates. The contribution of the retail and wholesale sectors to GDP during the period 2018-2019 was 7.5% and 7.6% respectively (KNBS, 2019). Between 2018 and 2020 the retail performance in Nairobi city reduced by 5.4 percent and 4.7 percent respectively (KNBS, 2020).

Despite the growth trends registered in the retail sector, several players have been struggling. Uchumi Supermarket has been experiencing financial uncertainty since 2015. The store's operations have been troubled by massive debts compelling it to close some of its outlets. Nakumatt and Tuskys have also been quickly closing down their branches because of increasing lease arrears and supplier debts. The organization's poor strategic decisions have exposed the retailers to unnecessary obligations and internal losses (Cytonn Investment, 2018).

A combination of dynamics including escalating debts, tax issues, gigantic internal losses, gross mismanagement, and monetary limitations identified with quick development and weak sales capacity, and imperfect strategic decisions are the fundamental motives behind the slow death of gigantic supermarket chains in Nairobi County. However, despite increased sales of supermarkets they continue to experience difficulties with their profitability threatening their closing, like Tuskys, Nakumatt, and Uchumi shut down despite having outlets all over the country (Cytonn Investments, 2018). Therefore, the current research intended to establish the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya.

Although several studies have been performed on medium-term financings using different strategies, conceptual and contextual, like in Pakistan, Arshad, et al., (2020) focused on lease financing and performance in the oil and gas trade. In Nepal, Singjali (2019) studied hire purchase financing of Pashchimanchal finance company limited. In Jordan, Al-Dwiry and Alkhazaleh (2018) studied the effect of financial leasing on the financial operation of Jordanian Islamic banks. In Albania, Korbi and Lleshaj (2020) conducted a study to analyze the value of finance leasing. In Nigeria, Atseye, et al., (2020) examined the correlation between lease financing and the profitability of Nigerian listed corporations. In Kenya, Kibunja and Fatoki (2020) examined the influence of medium-term debt on the financial operations of non-financial corporations registered on the Nairobi Securities Exchange. Owiro (2017) examined the influence of lease financing on the monetary performance of the Homa-Bay county government in Kenya. In Nairobi Kiragu and Wasike (2019) assessed the effect of lease financing and business sustainability at Davis & Shirtliff Limited.

Given the above study, none focused on the influence of medium-term financing on the profitability of supermarkets in Nairobi, as previous studies presented a contextual, conceptual, and methodological gap since they were conducted in large developed economies and countries, under different variables and sectors, further inconsistent conclusions hence their conclusions cannot be theorized in Kenya. Therefore, the study sought to fill the gap by assessing the influence of medium-term financing on the profitability of supermarkets in the central business district of Nairobi City Kenya.

C. *Objective of the Study*

To determine the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya.

II. LITERATURE REVIEW

A. *Theoretical Review*

a) Capital Structure Theory of Modigliani and Miller (1958 & 1963).

Modigliani and Miller (1958 & 1963) recommended two propositions I and II. In originating their propositions, the following hypothesis was developed: the capital market is perfect, there exist no agency expenses, there exist no taxes, there exist no transaction and liquidation costs, ordinary stakeholders can borrow at a similar rate as corporations, and there is information equilibrium between market participants (Modigliani & Miller, 1958).

According to MM 1, Modigliani and Miller contend that with the hypothesis of no taxes, the financial structure doesn't impact the valuation of a company thus leveraging the company does not improve the company's market value hence the market value of a company is claimed to be independent of its financial structure. Further indicated that the value of a levered company is equivalent to the value of an unlevered company. They further argued that the decision of source of debt or capital was irrelevant and could be considered a perfect substitute (Modigliani & Miller, 1958).

Modigliani and Miller published their second proposition in 1963 after experiencing many critiques for their proposition I. The second proposition moderate the hypothesis of no taxes and furthermore considers that interest on debt is tax-deductible. The second proposition states that the total cost of capital will decrease as leverage increases. Interest on debt is an allowable cost when ascertaining a corporation's tax obligation and decreases the tax burden. Thus it secures corporate earnings which is an advantage to the ordinary shareholder. MM II found that financial leverage is directly related to the cost of equity with an improvement in the debt component, the equity stakeholders perceive a greater risk to the corporation hence stakeholders presume a better profit, which increases the cost of equity (Modigliani & Miller, 1963).

Modigliani and Miller, further reasoned that in the nonexistence of liquidation costs and financial constraints effects proposition II supports high levels of debt capital because of the after-tax expense of debt being less than the cost of equity and its conclusion lowering the total cost of capital to the corporation. Interest tax deductions give corporations an advantage in using external funds. Modigliani and Miller showed that corporation value and corporation performance is a growing function of leverage because of the tax deductions for corporate-level interest payments therefore with the incidence of a tax shield, the corporation's value increases with the growth in debt (Modigliani & Miller, 1963).

Sarker, Rahman, and Uddin (2019) showed that leverage ratios positively affect profitability as supported by Modigliani and Miller, and concluded that organizations increase debt finance to decrease the cost of capital and enjoy tax benefits however debt level above the optimal financial structure negatively affects profitability.

Raharja and Mranani (2019), in a study of the non-linear influence of debt on corporate performance empirically established that the utilization of debt for funding decisions has a positive impact on corporate performance hence rising debt, will prompt such great performance. This evidently upholds Modigliani and Miller theory on capital structure. The MM theory assumes that tax incentives are the factor that prompts a positive influence on corporate performance.

Modigliani and Miller's capital structure theory is one of the supporting philosophies that explain the relationship between medium-term financing and profitability. This theory will be useful when analyzing the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya.

B. *Empirical Review*

a) Medium-term Financing and Profitability

In Bangladesh, Hossain and Kabir (2017) conducted a study on the influence of short and medium-term investment concentration on profit and dividend distribution from Islamic Banks from 2009 to 2013. The study covered only six Islamic banks in Bangladesh. The regression model was utilized to pilot the hypothesis. The study revealed that medium-term investments assume a larger capacity in producing incomes than long-term investments. The study concluded that Islamic banks of Bangladesh focus their investments on short and medium-term investments than long-term investments.

In Pakistan, Arshad, Bashir, Asif, and Hussain (2020) focused on lease financing and performance in the oil and gas trade from 2013 to 2017. The research involved a sample of 9 registered organizations in the oil and gas sector of Pakistan that were utilizing lease financing. The ordinary least square technique was used to evaluate data. The research established that lease financing negatively affected organization performance, positively affected organization size, and a modest positive relationship between debt proportion and lease financing.

Ishak, Leon, and Usman (2021) investigated the impact of asset-back securities on banking financial profitability of commercial banks in Southeast Asian nations from 1998 to 2018. The investigation used a sample of 12 commercial banks from Southeast Asian nations and the regression model for data analysis. The results showed that asset-backed securities positively influenced the financial profitability of commercial banks in Southeast Asian nations, further asset-back securities improved the bank's financial profitability percentages particularly profitability ratios and loan loss provisions.

Using descriptive and case study research methodology, Singjali (2019) studied hire purchase financing of Pashchimanchal finance company limited in Nepal. The objective of the research was to examine the hire purchase loans and their recovery. Karl Pearson's Coefficient of Correlation and regression analysis was utilized to check the significance, nature, and magnitude of the correlation between total deposit collection and hire purchase loan. The research revealed that existed a positive and noteworthy relationship between deposit collection and hire purchase loan of Pashchimanchal finance company limited.

In Jordan, Al-Dwiry and Alkhazaleh (2018) studied the effect of financial leasing on the financial operation of Jordanian Islamic banks from 2010 to 2016. The study utilized secondary data from all the regional Islamic banks that participated in lease financing. The study depended on assessing the hypotheses over regression analysis. The study revealed that lease financing significantly affected the return on equity and return on assets of Jordanian Islamic banks.

A study in Lampung Indonesia by Suwarto and Japlani (2021) carried out an analysis of disharmony between asset financing and financial growth in Lampung province in the leading quarter of 2014 to the leading quarter of 2020 usingquantitative research approach. The study used the panel data regression technique and the random effect model to evaluate data. They found that asset financing positively affected economic growth and working capital funding had a significant influence on financial development in Lampung.

Korbi and Lleshaj (2020) conducted a study to analyze the value of finance leasing in Albania with time series from 2008 to 2020. The data was evaluated utilizing the Autoregressive and Moving Average Process and co-integration technique. The explanatory variables were medium-term finances and long-term finances while the outcome variables was finance leasing. The study revealed that finance leasing and medium-term finances had a weak and statistically insignificant positive relationship.

Among Nigerian listed corporations, Atseye, Mboto, and Lawal (2020) examined the correlation between lease financing and profitability from 2012- to 2017. The study focused on 6 corporations. The data were evaluated using descriptive and pooled ordinary least square multiple regression statistics. The study revealed that lease financing positively and insignificantly influenced profitability. They conclude that lease financing should be employed as debt financing to help the investment of corporations for improved financial operation and to stimulate financial development and growth.

Olawale (2019) studied leasing as an alternative source of funding for small and medium enterprises in Nigeria. The study employed a survey research strategy. The study population was the registered small and medium enterprises listed and operative in Lagos State in Nigeria with a sample size of 60 enterprises. Statistics were evaluated using both descriptive and inferential analysis. The study revealed that leasing is an acceptable and alternative source of funding for SMEs operative in Nigeria. Further revealed that the cost of lease finance negatively influenced the adoption of the lease as an alternative for SMEs in Nigeria.

Using quantitative research design, Animasaun and Babayanju (2016) studied the influence of long-term finance, medium-term finance, and short-term finance on the financial operations of downstream petroleum corporations in Nigeria from 2011 to 2015. The study used a sample size of 20 downstream petroleum firms in Nigeria. The independent variable was medium-term finance and the dependent variable was profitability. Inferential statistics and a fixed-effect model were used to analyze data. The study revealed that there was an immediate relationship between medium-term finance and profitability. This specified that addition in medium-term finance would increase the profitability of petroleum corporations in Nigeria. They further observed that sources of finance considerably influenced the financial operations of downstream petroleum corporations in Nigeria.

In Kenya, Kibunja and Fatoki (2020) examined the influence of medium-term debt on the financial operations of non-financial corporations registered on the Nairobi Securities Exchange from 2013 to 2017. The study covered all the 41 non-financial firms registered on the Nairobi Securities Exchange as of 2017/2018 using census methodology. The statistics were evaluated using the panel data regression method. The study found that medium-term debt had an adverse and noteworthy relationship with the financial operations of non-financial firms registered on the Nairobi Securities Exchange.

In Nairobi, Kiragu and Wasike (2019) assessed the effect of lease financing and business sustainability at Davis & Shirtliff Limited from 2013 to 2017. The study used a descriptive research strategy and data was evaluated using ratio analysis techniques and a Pearson Correlation analysis assessed the extent of the correlation and the direction of the relationship between lease and profits. The study established that lease financing had a favorable relationship with profits and revenues. The study concludes that lease financing is crucial in assuring an organization's sustainability.

Owiro (2017) examined the influence of lease financing on the monetary performance of the Homa-Bay county government in Kenya. The study employed a causal survey research approach with a sample size of 146 personnel from the ministries of commerce, transportation, health, economics, and water services in the Homa-Bay county government. The regression equation was conducted to determine the relationship between lease financing and monetary performance. The study established that lease financing positively influenced the monetary performance of the Homabay county government in Kenya.

Using a descriptive research plan, Ensung (2018) explored the impact of agricultural asset financing on agricultural efficiency in Kenya. The study targeted the agrarian economy in Kenya where the statistics were collected from World Bank, AFC, and KNBS between 1985 and 2015. Statistics were evaluated through descriptive statistics and the time series model. The study revealed that agricultural asset financing affected agricultural efficiency.

Mburu and Ngatia (2017) assessed the elements influencing lease financing in the manufacturing industry by concentrating on Kariobangi Light Industries. The study utilized a descriptive research design. The sample size was 90 owners of organizations in the Kariobangi Light Industry. Data were examined by the utilization of descriptive and inferential statistics. Multivariate regression analysis was used to assess the relationship between lease financing and the monetary assets, tax shield, and access to information. The study revealed that monetary assets, access to information, and tax shield impact lease financing in organizations in the manufacturing industry. Leasing financing affected debt value to a modest extent and tax depreciation, taxable profits, net of tax cost of capital to a great extent.

C. Conceptual Framework

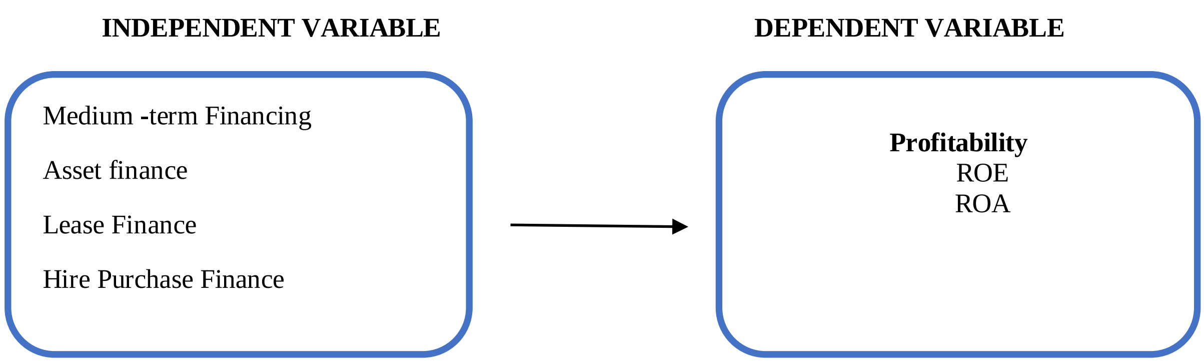

Fig. 1: Conceptual framework

Source: Author (2019)

III. RESEARCH METHODOLOGY

A cross-sectional survey research strategy was utilized in this study. The target population of this study comprised the 18 supermarket branches in Nairobi's central business district Kenya. The study specifically targeted the 18 branch managers and 18 accountants of these supermarkets. Since the population of supermarkets was small, the study employed the census survey method, and hence there was no sampling. The study used questionnaires to collect primary data and secondary data from financial statements and yearbook reports of supermarkets from 2016 to 2018. Data were analyzed using correlation and regression models with the support of the Statistical Package for Social Sciences (SPSS). Descriptive and inferential statistics specifically, mean, standard deviation and trends analysis were conducted. A multiple regression model was adopted to determine the relationship between medium-term financing and profitability:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \varepsilon}$$

Where:
Y=Profitability.
α =Constant.
β_1=Coefficient of Medium-term financing.
X_1=Medium-term financing.
ε=Error Term

IV. RESEARCH FINDINGSAND DISCUSSION

A. *Descriptive Statistics and Trend Analysis*

a) Effect of Medium-Term Financing on the Profitability of Supermarkets

The purpose of this study was to determine the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya. Respondents were asked to indicate the degree to which they agreed or disagreed with the assertions regarding medium-term financing and profitability on a Likert scale of 1-5.A mean score of 0-1.5 indicates that the respondents strongly disagree, a mean score of 1.6- 2.3 implies that they disagreed, a mean of 2.4- 2.7 means they had neutral perception, 2.8 -3.5 means that they agree, and a mean score of greater than 3.5 means that they strongly agreed.

Statements on Medium-Term Financing	Mean	Std. Deviation
Lease finance is employed by the supermarket.	3.613	.615
Asset finance is used as a financing method for fixed assets.	3.806	.601
Fixed assets have been purchased by hire purchase finance.	3.839	.523
The supermarket uses lease financing to invest in additional assets.	2.839	.898
Medium-term financing has improved the profitability of supermarkets.	3.774	.617
Medium-term financing has led to growth in revenue.	4.000	.632
Average	**3.645**	**0.648**

Table 1: Medium-Term Financing

Source: Research Findings (2019)

From table 1 it was revealed that respondents strongly agreed that lease finance is employed by the supermarket (M = 3.613; SD = 0.615), and strongly agreed that asset finance is used as a financing method for fixed assets (M = 3.806; SD = 0. 601), strongly agreed that fixed asset has purchased by hire purchase finance (M = 3.839; SD = 0. 523), agreed that supermarket uses lease financing to invest in additional assets (M = 2.839; SD= 0. 898), strongly agreed that medium-term financing has improved profitability of super market (M = 3.774; SD = 0. 617), strongly agreed that medium-term financing has led to growth in revenue (4.000; SD = 0. 632).The overall mean response of 3.65 indicated that the respondents agreed on every assertion regarding medium-term financing and that on average medium-term financing had a significant influence on the profitability of super markets in the central business district of Nairobi city Kenya. A standard deviation of 0.62 suggests that there was a small variation in the responses.

This finding concurs with Bui (2020) who revealed that organizations that improve capital in terms of medium-term financing have revealed an increase in their profitability. The results are consistent with Islam and Shafiuddin (2020) traditional banks equipped farmers with medium-term loans for fostering additional lands and procurement of equipment. Further, the results are consistent with the study by Hossain and Kabir (2017) who revealed that medium-term investments assume a larger capacity in producing incomes than long-term investments, and Jabeena, et al., (2021) who revealed that leasing and hire purchase funding is greatly favored by small and medium-sized enterprises that are operational in the service sector and agribusiness sector.

The outcomes are in agreement with the reviewed literature of Kiragu and Wasike (2019) who concluded that lease financing is significant in safeguarding a business's survival, and Atseye et al., (2020) who concluded that the lease-financing option was recommended as one of the sources of debt financing to boost the capital of firms to enable them to absorb losses, multiply fixed assets and grow continuously.

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Similarly, the conclusions agree with Animasaun and Babayanju (2016) who revealed that medium-term finance increased the profitability of petroleum corporations in Nigeria.

B. Inferential Statistics

a) Correlation Analysis

Pearson's Correlation analysis was utilized to check for the significant value of the correlation between the medium-term financing and profitability. The correlation outcomes in Table 2 indicates that medium-term financing and profitability were positively and significantly correlated (r = 0.579, p ≤ 0.05). This suggests that a change in medium-term financing prompts a huge improvement in profitability. The outcomes are in concurrence with Kiragu and Wasike (2019) who concluded that lease financing had a positive relationship with profits. The result further agreed with Atseye et al., (2020) who revealed that lease financing positively influenced the profitability of Nigerian quoted conglomerates.The result disagrees with those of Zunckel and Nyide (2019) who revealed that medium-term debt and profitability were negatively related.

		Profitability	Medium-term financing
Profitability	Pearson Correlation	1	.579**
	Sig. (2-tailed)		.001
	N	31	31
Medium-term financing	Pearson Correlation	.579**	1
	Sig. (2-tailed)	.001	
	N	31	31

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

Table 2: Correlation Matrix
Source: Research Findings (2019)

C. Multiple Regression Analysis

A multiple regression model was also used to determine how the medium-term financing influenced the profitability.

a) Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.579[a]	.335	.312	.621

a.Predictors: (Constant), Medium-term financing

Table 3: Model Summary
Source: Research Findings (2019)

The results in Table 3 show the coefficient of correlation (R) value of 0.579 designating that there was a strong and positive correlation between medium-term financing and profitability. The adjusted R-square 0.312 indicates that 31.2% of changes in profitability were determined by medium-term financing while 79.8% are explained by other factors, which have not been investigated by the model therefore further research should be done to establish those factors.

b) Analysis of Variance

ANOVA was conducted to establish model significance, the findings of ANOVA revealed F-statistics = 14.598, P=0.001 which was lower than the significance level of 0.05 hence regression model was significant. The findings implied that the models had good fitness and concluded that medium-term financing was significant in explaining the changes in the profitability of supermarkets.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.638	1	5.638	14.598	.001[b]
	Residual	11.200	29	.386		
	Total	16.839	30			

a. Dependent Variable: Profitability

b. Predictors: (Constant), Medium-term financing

Table 4: ANOVA

Source: Research Findings (2019)

c) Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.343	.754		1.780	.086
	Medium-term financing	.650	.170	.579	3.821	.001

a. Dependent Variable: Profitability

Table 5: Regression Coefficients

Source: Research Findings (2019)

The findings in Table 5 revealed that holding all other factors constant, the level of the profitability of supermarkets would be at 1.343. The results indicated that medium-term financing significantly and positively influenced the profitability of supermarkets ($\beta = 0.650$; Sig < 0.05). These results imply that a unit improvement in medium-term financing is associated with a 0.650 unit improvement in the profitability of supermarkets. The findings are in agreement with Suwarto and Japlani (2021) who established that asset financing positively affected economic growth in Lampung.Ishak et al., (2021) results showed that asset-backed securities positively influenced the financial profitability of commercial banks in Southeast Asian nations. Similarly, the conclusions agree with Ensung (2018) who revealed that agricultural asset financing affected agricultural efficiency.

Further, the findings agree with Al-Dwiry and Alkhazaleh (2018) that lease financing significantly affected the return on equity and return on assets of Jordanian Islamic banks. Animasaun and Babayanju (2016) established a direct relationship between medium-term finance and profitability.

The findings agreed with MM II propositions (1963) support high levels of debt capital because the corporation's value increases with the growth in debt however debt level above the optimal financial structure negatively affects profitability.

The findings contradict those of Arshad et al., (2020) that lease financing negatively affected organization performance. Further, contradicts those of Kibunja and Fatoki (2020) who established that medium-term debt had an adverse and noteworthy relationship with the financial operations of non-financial firms registered on the Nairobi Securities Exchange.

The multiple regression analysis is as shown below:
$Y = 1.343 + 0.650\ X_2$
Source: Research Findings (2019)

D. Trend Analysis

The study collected secondary data on Return on Asset and Return on Equity of supermarkets in Nairobi's central business district from 2016 to 2018. Figure 2 gives the trend of Return on Asset and Return on Equity.

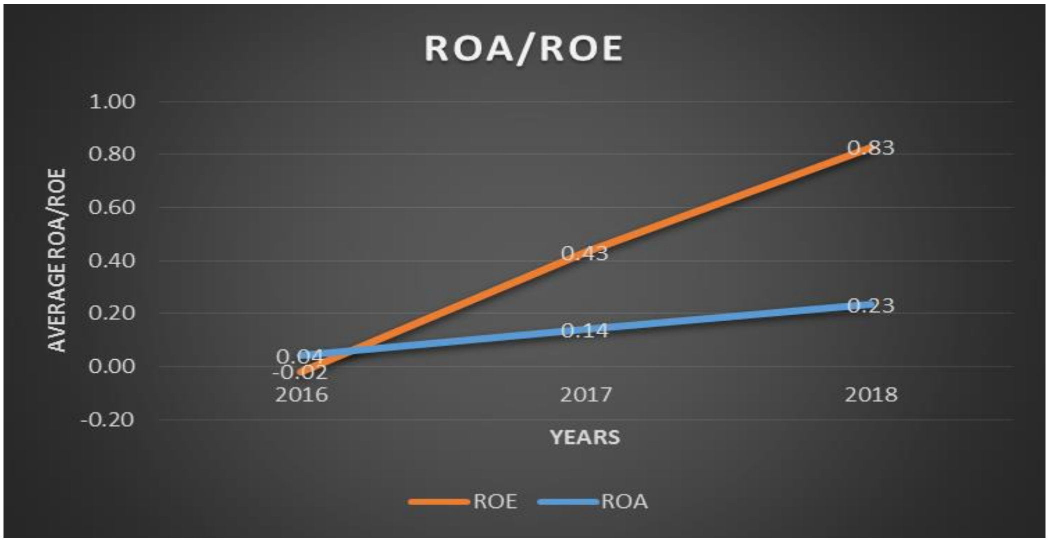

Fig. 2: Trend Analysis for ROA/ROE for the Period 2016 – 2018

Source: Research Findings (2019)

From the findings in Figure 2, the average ROA was 0.04 in the year 2016 increased to 0.14 in the year 2017, and further increased to 0.23 in the year 2018. Further results showed that the average ROE was -0.02 in the year 2016, increased to 0.43 in the year 2017, and further increased to 0.83 in the year 2018. This means that ROA and ROE have been fluctuating during the study period. This might be perhaps explained by the presence of a favorable economic growth environment prevailing at that time, favorable tax rates, increment sales, increase in debt capital and refinancing at lower interest rates.

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

The objective of the study was to determine the effect of medium-term financing on the profitability of supermarkets in the central business district of Nairobi city Kenya. The study revealed a positive correlation between medium-term financing and profitability, it can thus be inferred that medium-term financing had a significant and positive relationship with the profitability of supermarkets in the central business district of Nairobi city Kenya. This implies that an increase in medium-term financing improves profitability and that increase in lease finance, hire purchase finance and asset finance improves and expands supermarket profitability which positively affects the supermarket performance. This high positive effect is improved through asset finance, lease finance, and hire purchase finance as financing methods for fixed assets.

Further concluded that medium-term financing significantly influences the profitability of supermarkets in the central business district of Nairobi city Kenya. The study further concluded that supermarket utilizes lease finance and that asset finance is utilized to fund the fixed asset, supermarket uses hire purchase finance to secure the fixed asset, supermarket utilizes lease financing to invest in additional assets, and medium-term financing is crucial for profitability maximization in the supermarket and medium-term financing have prompted development in revenue of supermarket.

B. Recommendation

The results of this study can provide intelligent recommendations for the directors and policymakers in the supermarket business of Kenya. The study established that medium-term financing had a significant and positive relationship with the profitability of supermarkets in the central business district of Nairobi city Kenya. Based on this outcome, the study recommends that management should utilize medium-term financing for funding decisions since it positively affects supermarket performance hence increasing medium-term financing will prompt high corporate earnings which is an advantage to the ordinary stockholders.

The study recommends that supermarket managers should strive to maintain an appropriate medium-term funding level to help increase profits and growth of supermarkets, therefore supermarkets should be averagely leveraged.

The management should maintain an optimal financial structure to avoid high debt ratios, which can influence supermarket sustainability as it increases the expenses related to company defaults and the risk of bankruptcy.

The Ministry of Industry, Trade, and Cooperative through its financial allocations should initiate supermarket commercial fairs and campaigns to raise awareness of the most effective supermarket assets that are accessible to the retailers and enlighten them on the expected returns.

The Retail Trade Association of Kenya should also teamwork with government organizations and supermarket unions to boost the adoption of lease finance, asset finance, and hire purchase finance as alternative finance to supermarkets in Kenya.

Through moral persuasion and definite directives, the government can direct the lending institutions to concentrate and allocate some of the lending funds to the supermarket that will decrease the cost of lending to supermarkets in Kenya To encourage full participation of supermarkets, financial institutions and capital markets from which medium-term finance can be acquired should govern the financing costs and regulations.

The government should come up with programs like tax credit loans, low-interest finances, supermarket cash flow loan schemes, government-backed credits, direct grants, and zero-premium loans that assist supermarkets to engage in profitable businesses and help to overcome financial difficulties.

The government should provide tax measures for supermarkets like interest exemption and reduction of penalties for default on various duties like corporate tax and VAT to subsidize the investment capital of supermarkets and the ability to credit access.

The government should provide incentives like levy incentives for financial organizations lending to supermarkets that will encourage other institutions to consider the option of lending to this sector to support their cash flow needs.

C. Suggestions for further Study

The study revealed that 79.8% of the changes in profitability of supermarkets are explained by other unidentified variables rather than medium-term funding. It will therefore be necessary to conduct research to determine these unidentified variables.

Future research may consider other sectors like the financial sector, agricultural sector, petroleum sector, mining sector and healthcare sector, and education sector.

Further future studies can examine the influence of medium-term financing on supermarket performance in terms of non-financial indicators such as company reputation, customer satisfaction and retention, and competitiveness.

Since this research was limited to the city of Nairobi, we need to extend the research to supermarkets in other cities and counties not covered by this research to assess the consistency of the results.

Further, future studies should obtain a large number of supermarkets to determine whether the results can be generalized since only the supermarkets in Nairobi City were used.

The study used a cross-sectional research design to carry out the main research. There should be similar studies but utilizing a different research design to attest whether the results may vary depending on the research design utilized.

A study with a considerable background in terms of geographical scope like Kenya and the East African region can be piloted using similar variables to assess whether the same conclusions would be attained across the different economies.

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