INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES ON RETURNS
A CASE OF MOLOLINE SERVICE LIMITED
IN NAKURU MUNICIPALITY

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GMB/NE/0484/5/10

A research project submitted in partial fulfillment for the award of Master of Business Administration of Kabarak University

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DECLARATION

I hereby declare that this research project is my original work and has not been submitted to any institution for purposes of examination or academic award. Any information given is my entire work and effort and all sources used and quoted are acknowledged in the reference section.

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APPROVAL

This report has been submitted with our approval as the University Supervisors.

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DEDICATION

First and foremost, this project is dedicated to my God whose provision, grace, and care I cherish.

Secondly, this project is dedicated to my parents, Mr. Joseph Nyabanga (late) and Mrs. Josephine Moraa, for their continued support and encouragement.

Thirdly, this project is dedicated to my siblings Jasper, George, Zablon, Willy, Sarah, Rose, Andrew, Kerubo and Jane. I also dedicate this project to my dear uncles Bill Mazini, Kevin, Orego, and Makori as well as my aunts Pamelah, Gesare, Monicah, and Moraa; my cousins Erick, Job, Claire, and Omare for their continued support and encouragement throughout the program

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ABSTRACT

Financial Management practices are vital in any investment, given that there are many investment opportunities available in Kenya. The role of financial management practices on the returns of organizations has not been clearly understood. This study aimed at investigating the influence of financial practices with respect to financing and agency decisions on the returns and find out the extent to which these practices are utilized in the *matatu* industry. The study concentrated on the cost of capital, capital structure, agency decisions and the cost of operations. Significance of the study was to create awareness to investors and help them in financial management practices, add to the existing knowledge and help government in policy formulation. The survey research design was employed where collection of primary data was through questionnaire and the respondents were selected through a stratified random sampling. Data was analyzed using descriptive statistics, correlation, factor analysis and regression. The study found out higher preference for the equity capital. Debt financing is also used but on a smaller scale. The decision to use debt is largely influenced by its cost and the attendant risk, that is, the potential of not covering the debt from the cash flows from operations. The study recommends that, Mololine Service Limited should seek new ways of making it possible for members to access loans at lower rates by, for instance, entering into funding commitments with the financial institutions and also higher degree of vigilance in terms of monitoring should be considered by the organizations. Therefore mechanisms should be put in place to ensure good financial management practices.

Key words: Financial management, returns, cost of capital, capital structure, cost of operation and agency decisions.

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LIST OF ABBREVIATIONS AND ACRONYMS

CAL	Capital Allocation Line
CAPM	Capital Asset Pricing Model
GPRS	General Packet Radio Service
MCN	Municipal Council of Nakuru
MSL	Mololine Service Limited
MPT	Modern Portfolio Theory
PMPT	Post- Modern Portfolio Theory
PSV	Public Service Vehicle
SPSS	Statistical Package for Social Sciences

DEFINITION OF TERMS

Agency decision:	The decision to allow someone to manage your resources (*Matatu*)
Capital asset pricing model:	A theory concerned with deriving the expected or required rates of return on risky assets based on the assets systematic risk relative to a market portfolio.
Capital structure:	A composition of equity and debt finance.
Cost of capital:	The opportunity cost of an investment; i.e. the rate of return that a company would otherwise be able to earn at the same risk level as the investment that has been selected.
Cost of debt:	The interest rate a company is paying on all of its debt, such as loans and bonds.
Cost of equity capital:	The rate of return required by a company's common shareholders.
Equity finance;	Refers to the money contributed by the owner
Efficient frontier:	A set of portfolio that has the maximum rate of return for every given level of risk, or the minimum risk for every potential rate of return.
Financial distress:	Unable to pay short term debt or failure to honor financial obligation.
Financial management:	Concerns with the acquisition, financing and management of assets with some overall goal in mind.

Matatu operators:	Refers to the owners of the *matatu*.
Management:	Refers to the administrators of Mololine Service Limited, who carry out the operations.
Portfolio:	A combination of assets or a collection of real and financial assets that a firm or an investor owns.
Return:	refers to the money collected after all expenses have been deducted
Shareholders:	Refers to the owners of Mololine services limited.

CHAPTER ONE: INTRODUCTION

1.1 Background to the study

Public transport in Kenya and especially in urban areas is dominated by *Matatu* Vehicles. Currently, a *matatu* is properly described as a 14-seater Nissan Hommy car or Toyota Shark models normally used in several routes in the country. The name also refers to 25-seater mini-bus which is also called "Manyanga", a Kenyan slang for "a very beautiful girl". *Matatu* is also used to refer to the smaller 7-seater cars like the Toyota Municipality race model which are preferred for the upcountry journey (Aduwo, 1990). In the early 1960s, the total number of *matatus* operating in the country was less than 400 and they operated in form of taxis. In 1973, President Jomo Kenyatta, responding to lobbying from *matatu* operators, declared that *matatus* were a legal mode of transport and could carry fast paying passengers without obtaining special licenses to do so but had to comply with existing insurance and traffic regulations (Aduwo, 1994).

Nakuru Municipality is well integrated within the international, national and regional transportation system. The Municipality is also connected to its hinterland through national roads and is responsible for 236 km of roads laid out in a grid pattern throughout the Municipality. Nakuru has several means of transportation available for public transport with 3560 *matatus*, minibuses, buses, *tuk tuks* (motorized 3-wheeled light vehicle) and bicycle taxis.

Financial management is a managerial activity which is concerned with planning and controlling of the firms resources. Though it was a branch of economics until 1890, as a separate activity or discipline it draws heavily on economics for its theoretical concepts (Pandey, 1999). Financial management concerns the acquisition, financing and management of assets thus the functions of financial management can be broken down into three major areas; investment, financing and assets management decisions (Horne and Wachowicz, 2001). Efficient financial management requires the existence of some objectives or goal. As to whether or not a financial decision is efficient must be made in the light of some standards. There are various objectives of the firm the major one being to maximize the investors returns for most firms (Horne and Wachowicz, 2001). Financial decisions of the investors are interrelated and jointly affect the market value of its shares by influencing return and risk of the firm.

A proper balance between return and risk should be maintained to maximize the market value of investor. Such a balance is called risk-return trade-off and every financial decision involves this trade-off. The interrelation between investor value, financial decisions and risk return trade-off is depicted in figure 1. The figure also gives an overview of the functions of financial management.

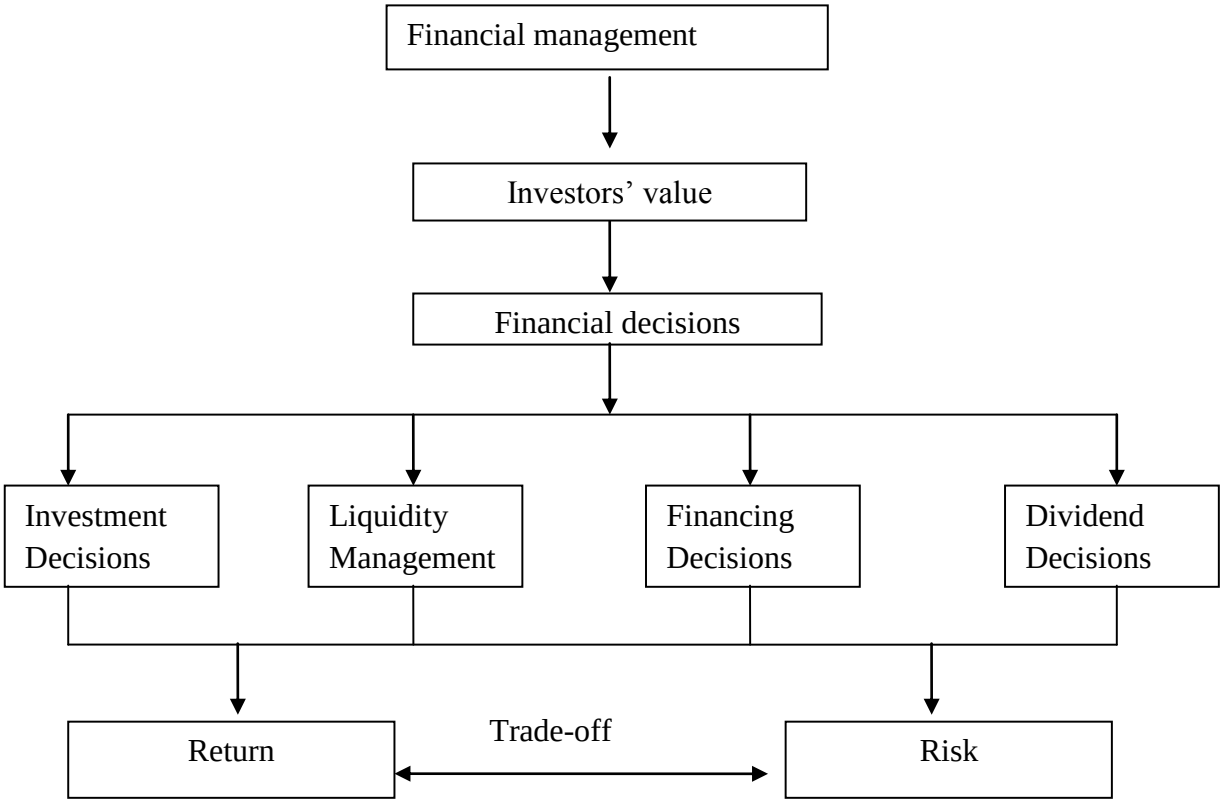

Figure 1: Overview of Financial Management

Source: Pandey (2001)

The financial manager, in a bid to maximize owners wealth, should strive to maximize returns in relation to the given risk, should seek courses of action that avoid unnecessary risks, ensure maximum returns and funds flowing in and out of the firm should be constantly monitored to assure investors that they are safeguarded and properly utilized (Pandey, 1999).

Capital budgeting involves the decision of allocation of capital or commitment of funds to long-term assets that could yield benefits in the future. Two important aspects of investment are the evaluation of the prospective profitability of new investment and the measurement of a cut-off against that the prospective return of new investments could be compared. Future benefits of investments are difficult to

measure and cannot be predicted with certainty. Due to uncertainty, future investment decisions involve risk and therefore it is evaluated in terms of expected return and risk (Pandey, 2001). There is a broad agreement that the correct cut-off rate is the required rate of return or the opportunity cost of capital.

The central issue in financing is to determine the proportion of equity and debt or the so called capital structure. The investor must strive to obtain the best financing mix or the optimum capital structure for his or her firm. The firm's capital structure is considered to be optimum when the market value of shares is maximized. The use of debt affects the return and risk of shareholder. It may increase the return on equity funds but it always increases risk. A proper balance will have to be struck between return and risk. When the shareholder return is maximized with minimum risk, the market value per share will be maximized and the firm's capital structure would be considered optimum (Pandey, 2001). Once the financial manager is able to determine the best combination of debt and equity, then one must raise the appropriate amount through the best available sources. In practice, a firm or investor considers many other factors such as control, flexibility, loan covenants and legal aspects in deciding its capital structure.

1.2 Statement of the Problem

There are a number of investment opportunities in the country and investors have taken them vigorously. Investment in *matatu* industry involves buying of assets which entail investing huge amount of funds in the sector. Therefore it calls for financial management with respect of financing and agency decisions. The investor should consider the expected cost of financial distress which depends on the probability of returns and cost of distress; notice that the stable sales and lower operating leverage provide tax benefits but also reduce the probability of financial distress (Brigham and Ehrhardt, 2008). Many studies focus on relationship of capital structure; cost of capital and cost of operations on their empirical relationships as well as on agency decisions but, little has been studied on how and to what extent these variables have an influence on the returns of the Public Service Vehicle (PSV) transport industry. Hence the study is aimed at investigating the influence of cost of capital, capital structure, agency decision and cost of operations on the returns of, *matatu* industry; a case of Mololine Service Limited.

1.3 Research Objectives

1.3.1 General Objective

The general objective was to investigate how financial management practices influence returns in PSV *matatu* industry in Nakuru Municipality.

1.3.2 Specific Objectives

i. To find out how cost of capital affects returns for PSV *matatus* in Nakuru Municipality.
ii. To examine the impact of capital structure on returns for PSV *matatus* in Nakuru Municipality.
iii. To investigate how agency decisions affect the returns for PSV *matatus* in Nakuru Municipality.
iv. To determine how the cost of operations influence returns for PSV *matatus* in Nakuru Municipality.

1.4 Research Hypotheses

i. Cost of capital does not affect returns for PSV *matatus* in Nakuru Municipality.
ii. Capital structure does not have an impact on returns for PSV *matatus* in Nakuru Municipality.
iii. Agency decisions do not affect returns for PSV *matatus* in Nakuru Municipality.
iv. Cost of operations does not influence returns for PSV *matatus* in Nakuru Municipality.

1.5 Significance of the Study

The study is considered significant since it creates attentiveness on the influence of financing and agency decision on the returns of *matatu* industry. Thus the potential investors will gain knowledge on the benefits of financial management practices such as cost of capital, capital structure, cost of operations and agency decisions. Other researchers who may be interested in similar research may use the research findings as a framework in their research, which adds value to the existing pool of knowledge. Finally, the research may assist the government in policy formulation especially in transport industry.

1.6 Scope of the Study

The scope of this study was confined to 56 respondents of Mololine Service Limited in Nakuru Municipality in 2011. The study was aimed finding out how the financial management practices of the firm influence the returns of the firm. Given the fact that the study is about the financial practices of the firm, no effort was made to study the accounting aspects of the firm. The study also left out the financial records of the firm so that the research work was efficiently focused on the financial management issues of investment, financing and resource utilization decisions of the firm.

1.7 Limitations of the Study

There was challenge of the respondents to give information in fear that they might give out information that is confidential and sensitive. The researcher resolved this by designing the questionnaires in such a way that the respondents were not required to give certain sensitive information that may prompt them to give invalid or inaccurate data. Therefore, appropriate broad categorizations were used instead of seeking exact figures. The respondents were also guaranteed of confidentiality.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter examines and exploit a number of studies which have been done on the subject of financial management practice especially theories relating to capital structure, cost of capital and agency theories. It brings the picture of theories and tries to compare them and finally comes up with a conceptual framework so as to establish a relationship between financial management practices and returns in *matatu* industry.

2.2 Capital Structure

The assets of a company or an investor can be financed either by increasing the owner's claims. The owners' claims increase when the firm raises funds by issuing ordinary shares or by retaining the earnings; the creditors' claims increase by borrowing. The various means of financing represent the financial structure of a firm. Traditionally, short-term borrowings are excluded from the lists of methods of financing the firm's capital expenditure and therefore, the long term claims are said to form the capital structure (Emery, Finnerty and Stowe, 2007). The capital structure decision was first tackled in a vigorous theoretical analysis by the financial economists Modigliani and Miller in 1958. They created a simplified model of the world by making some assumptions. Given those assumptions they concluded that the value of a firm remain constant regardless of the debt level. In the real world companies do not generally raise their debt-to-equity ratio to very high levels (Glen, 2008). The financing or capital structure decision is a significant managerial decision, it influences the shareholders return and risk, consequently, the market value of the share may be affected by the capital structure decision. The investor will have to plan its capital structure firm initially at the time of its promotion. Subsequently, whenever funds have to be raised to finance investments a capital structure decision is involved (Brigham and Ehrhardt, 2008). Pandey (1999) came up with the process of the capital structure decision as indicated in Figure 2.

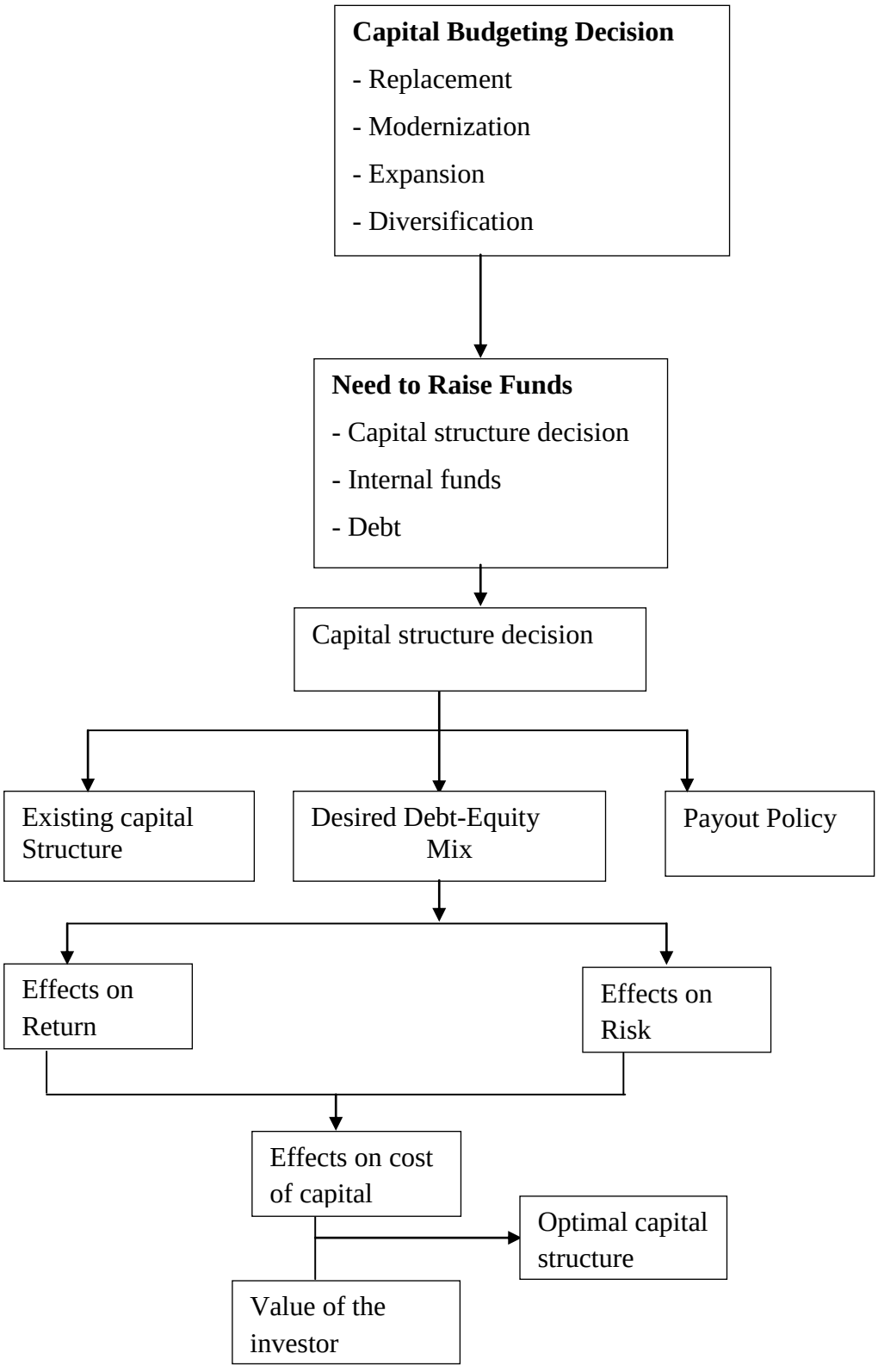

Figure 2: The capital structure decision

Source: Pandey (2001)

The demand for raising funds generates a new capital structure since a decision has to be made as to the quantity and forms of financing. This decision will involve an analysis of the existing capital structure and the factors which will govern the decision at the present. The new financing decision of the firm may affect its debt-equity mix. The debt-equity mix has implications for the shareholders' earnings and risk which in turn will affect the cost of capital and the value of the investor.

According to Brigham and Ehrhardt (2008) managers should choose the capital structure that maximizes shareholders wealth. The basic approach is to consider a trial capital structure based on the market values of the debt and equity, and then estimate the wealth of the shareholders under this capital structure. The approach is repeated until an optimal capital structure is identified. There are five steps for the analysis of each potential capital structure:

i) Estimate the interest rate the firm will pay.
ii) Estimate the cost of equity.
iii) Estimate the weighted average cost of capital.
iv) Estimate the free cash flows and their present values; which is the value of the firm.
v) Deduct the value of the debt to find the shareholders wealth which we want to maximize.

Brigham and Daves (2004) argues that the business risk and tax position need financial flexibility, managerial conservatism or aggressiveness and growth opportunities influence the firm's capital structure.

Pandey (2001) argues that the value of the firm or the investor depends upon its expected return and the rate used to discount the expected return. Thus, the capital structure decision can affect the value of the investor by changing the expected returns or the cost of capital or both. Leverage cannot change the total expected return of the investor, but it can affect the residue return of the shareholders. The effect of leverage on the cost of capital is not very clear conflicting opinions have been expressed on this issue. In fact, this issue is one of the most contentious areas in the theory of finance and perhaps more theoretical and empirical work has been done on the subject than on any other. If leverage affects the cost of capital and the value of

the firm, an optimum capital structure would be obtained at the combinations of debt and equity that maximize the total value of the investor. Given that a firm has a certain structure of assets which offers net operating earnings of a given size and quality and given a certain structure of rates in the capital markets is there some specific degree of financial leverage in which the market value of the firm's securities will be higher (or the cost of capital will be lower) than at other degrees of leverage (Brigham and Deves, 2004).

The existence of an optimum capital structure is not accepted by all. There exist two extreme views and a middle position. David Durand identified the two extreme views the net income and net operating approaches. The net income approach; the cost of debt and cost of equity are assumed to be independent to form capital structure, the weighted average cost of capital declines and the total value of the firm rises with increase use of leverage. The net operating income (NOI) approach, the cost of equity is assumed to increase linearly with leverage. As a result, the weighted average cost of capital remains constant and the total value of the firms also remain constant as leverage is changed. Brigham and Ehrhardt (2008) support the NOI approach by providing logically consistent behavioral justification in its favour. They deny the existence of the optimum capital structure. According to (Horne and Wachowicz, 2001) for one to understand the capital structure and face value of the firm one has to make assumptions which are firms employ only two type of capital: debt and equity, the total assets of the firm are given, investors have the same subjective probability distribution of expected return, the firm has a policy of pay 100 per cent dividends; business risk is assumed to be constant and independent of capital structure, finally the corporate and personal income taxes do not exist.

2.3 The Cost of Capital

Most important business decisions require capital; including decisions to develop new products, build factories and distribution centers, and install information technology expand internationally, and acquire other companies. For each of these decisions a company must estimate the total investment that is required and decide whether the expected rate of return exceeds the cost of the capital. The cost of capital is also used in many compensation plans, with bonuses dependent on whether company's return on invested capital exceeds the cost of capital (Ehrhardt, 1994). It should be recognized at the first outset that the cost of capital is one of the most difficult and

most disputed topics in finance theory, Financial experts express conflicting opinions as to the way in which the cost of capital can be measured. It should be noted that it is a concept of vital importance in the financial decision making. It is useful as a standard for evaluating investment decision designing a firm's debt policy and appraising the financial performance of top management. The cost of capital can also be useful in deciding about the methods of financing at a point of time (Ehrdardt, 1994). The investors or firms cost of capital is the average of the opportunity (or required rates of return) of various securities which have claims on the firm assets (Pandey, 2001).How does the investor know about the required rates of return. The required rates of return are market-determined. The market price of securities is a function of the return expected by the investors. The demand and supply forces work in such a way that equilibrium rates are established for various securities. Glen (2008) gives the formula of cost of capital.

$$Io=CF_1/1+k +CF_2/ (1+k)^2 +----+CF_n /(1+k)^n$$

Where Io is the capital supplied by the investors in period 0, CF are the return expected by investor and k is the required rate of return or cost of capital. The cost of capital is the internal rate of return which equates the present values of inflows and outflows of a financial opportunity.

A company may raise debt in a variety of ways. It may borrow funds from financial institutions or public either in the form of public deposits or debentures for a specified period of time at a certain rate of interest. The contractual rate of interest forms the basis for calculating the cost of any form of debt (Pandey, 2001). Firms may raise funds equity capital in internally by retaining earnings. Alternatively, they could distribute the entire earnings to equity shareholders and raise equity capital externally by issuing new shares. In both cases shareholders are providing funds to the firms to finance their capital expenditures. Therefore, the equity shareholders' required rate of return will be the same whether they supply funds by purchasing new shares or by foregoing dividends which could have been distributed to them (Taggart, 1991).

An investor or a firm obtains capital from various sources, because of the risk differences and the contractual agreement between the firms and investor, the cost of capital of each source differs. The combined cost of all sources of capital is known as overall or average cost of capital. In practice firms or investors do not use all sources of capital together to finance their capital expenditure at one point in time. The various sources of capital are related to each other. The investor's decisions to use debt in a given period reduce its future debt capacity as well as increases risk to shareholders. The share holder will require a higher rate of return to compensate for the increased risk. Similarly, the firm's decision to use equity capital will enlarge its potential for borrowings in the future. Over the long run the firm will maintain a balance between debt and equity, because of the connection between the sources of capital and the firm's desire to have a balance capital structure in the long run. It is generally agreed that the cost of capital should be used in composite (Pandey, 2001).

2.4 Portfolio Theory

The portfolio theory provides a normative approach to investor of investing their entire wealth in a single asset or security. Modern portfolio theory (MPT) proposes how decision to invest in assets or securities under risk. It is based in the assumption that investors are risk-averse (Pandey, 2001). This implies that investors hold well-diversified portfolio instead of investing their entire wealth in a single asset or security. Modern portfolio theory proposes how rational investors will use diversification to optimize their portfolio and how a risky asset should be priced. Recent innovations in theory particularly under the rubric of Post-modern Portfolio Theory (PMPT) have exposed several flaws in this reliance of variance as the investors risk proxy. The capital allocation line (CAL) is the line of the expected return plotted against risk (Standard deviation) that connects the entire portfolio that can be formed using a risky assets and a riskless asset. Brigham (2002) also proved that it is a straight line and it has the following equation:

$$CAL= E(rc)= rF + \partial c\ E(rp) - rF/\partial P$$

In this formula P is the portfolio F is the risk less portfolio and C is a combination of portfolio P and F

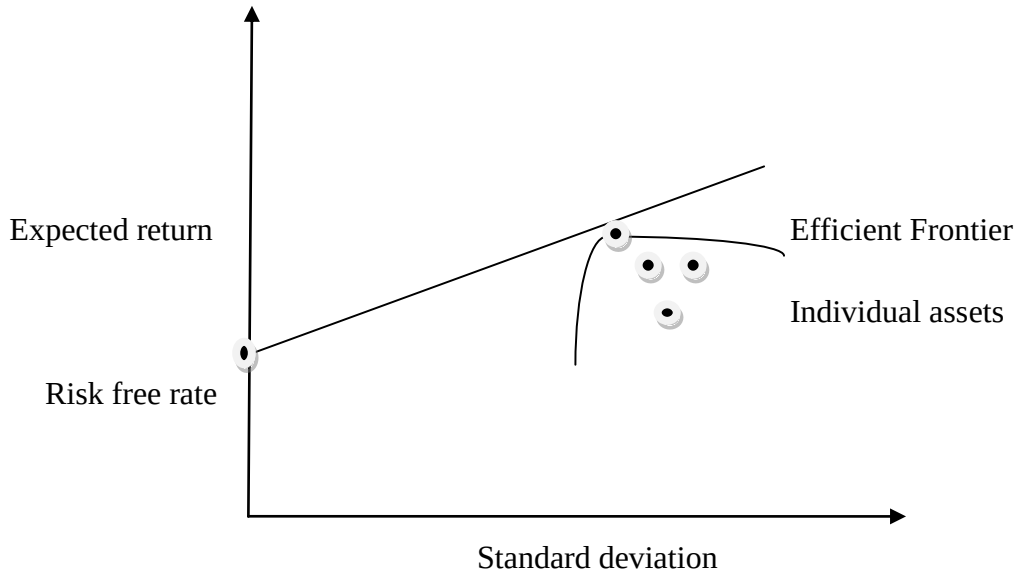

Figure 3: Capital asset pricing model and capital allocation line
Source: Glen (2008)

Every possible asset combination can be plotted in risk return space and the collection of all possible portfolios defines a region in this space. The line along the upper edge of this region is known as the efficient frontier. Mathematically the efficient frontier is the intersection of the set of portfolios with minimum variance (MVs) and the set of portfolios with maximum return. Formally the efficient frontier is the set of maximal elements with respect to the partial order of product on risk and return. The efficient frontier can be illustrated in figure 2 with return on the y-axis and risk on the x-axis this is also in line with capital asset pricing model (Sharpe, 2007).

The capital asset pricing model specifies the relationship between risk and required rates of return on asset when they are held in well-diversified portfolios. Brigham (2002) examines the assumptions behind CAPM which are: all investors focus on a single holding period and they seek to maximize the expected utility of their terminal wealth by choosing among alternatives portfolios on the basis of each portfolio expected return and standard deviation, all investors can borrow or lend an unlimited amount at a given risk-free rate and there are no restrictions on short sales of any assets; that is investors have homogenous expectations, all the assets are perfectly divisible and perfectly liquid, there are no transaction cost and taxes and finally the quantities of all assets are given and fixed. Copeland, Shastri and Weston (2005) suggested the uses of CAPM as determining the cost of a security, determination of

weighted average cost of capital, in capital budgeting and valuation of securities. The CAPM is a single-factor model. That is it specifies risk as a function of only one factor, the security's beta coefficient (Brigham and Daves, 2004). What if many factors are required to specify the equilibrium risk/return relationship rather than just one or two thus the capital pricing model faced a number of challenges. The CAL and CAPM are often contrasted with the arbitrage pricing theory which holds that the expected return of a financial asset can be modeled a linear function of various macro-economic factors, where sensitivity to changes in each factor is represented by a factor specific beta coefficient (Brigham and Ehrhardt, 2008).

It is an extension of the traditional modern portfolio theory also called mean-variance analysis. Both theories propose how rational investors should use diversification to optimize their portfolios and how a risk asset should be priced. Markowitz (1959) laid the foundation of MPT the greatest contribution of which is the establishment of a formal risk/return framework for investment decision making. It has long been recognized that investors typical do not view as those returns above the minimum they must earn in order to achieve their investment objectives. They believe that risk has to do with bad outcome that are returns below the required target. The good outcome is return in excess of the target and that losses weigh more heavily than gains.

2.5 Agency Problem

It has been recognized that the separation of ownership and control in the modern. Corporation results in potential conflicts between owners and managers (Horne and Wachowicz, 2001). The objectives of managers may differ from those of the firm's shareholders. Thus, this separation of ownership from management creates a situation in which management may act in its own best interest rather than those of the shareholders. Jensen and Meckling were the first to develop a comprehensive theory of the firm under agency arrangement they showed that the principals; the investor can be assured that the agent(management) will make optimal decisions only if appropriate incentives are given and if the agents are monitored. Monitoring is done by bonding the agent systematically, reviewing management perquisites, auditing financial statements and limiting management decision in consistent with Gitman (2005). Horne and Wachowicz (2001) argues that asset management decisions is an

important decision to financial management once asset have been acquired and appropriate financing provided these assets still must be managed efficiently.

2.6 Capital Structure Evidence and Implications

Studies show that firms or investors do benefit from tax deductibility of interest payments with a typical firm increasing in value (Brigham, 2008). The financing choices of existing firms might be influenced by their past financing choices and by the cost of moving from one capital structure to another, but because spin-offs are newly created companies managers, investors can choose a capital structure without regard to these issues. The study finds that more profitable firms which have a lower probability of bankruptcy and more asset intensive firms should have higher levels of debts. These findings support the trade-off theory. The two Indian studies on the relationship between the cost of capital and the capital structure Sarma and Rao (1968) following Modigliani and Miller 1966 article employed a two-stage least square method on the data of thirty Indian engineering firms for three years. In their estimates the leverage variable had a coefficient greater than the tax rate and they concluded that the cost of capital is affected by debt apart from its tax advantages.

2.7 The Capital Asset Pricing Model, Risk and Return

The Holy Grail of finance is the search for the relationship between risk and required rates of return. This relationship affects the securities purchased and sold by investors, the strategies chosen by portfolio managers. In fact most decisions in finance boil down to the trade-off between risk and return (Brigham and Ehrhardat, 2008) The CAPM was the first theory of risk and return to become widely used by analyst investors and corporations. One of its key contributions is the insight that required return should not be affected by diversifiable risk and that only none diversifiable risk matters. Indeed investors have become more diversified as the CAPM has become more widely known. However, despite the CAPM's intuitive appeal, a number of studies have raise concerns about it is validity in particular a study by Fama and French (1992) cast a doubt on the CAPM, found out that the two variables are consistently related to stock returns; after adjusting for other factors they found that smaller firms are provided relatively higher returns on stocks with lower markets ratio. At the same time and contrary to the CAPM they found no relationship between stocks beta and its return.

According to Brown (2009), most of the early evidence regarding the relationship between rates of returns and systematic risk of portfolios supported the CAPM. The literature provided extensive evidence that size, the profitability equity ratio, financial leverage and the book-to-market value ration have explanatory power regarding returns beyond beta. Kothari and Shanken (1997) measured beta with annual returns to avoid trading problems and found substantial compensation for beta risk. They suggested that the results obtained by Fama and French (1992) may have been time period-specific and might not be significant over a longer period. Pettangall, Dundaram and Mathrur (1995) noted that empirical studies typically used realized returns to test the CAPM model when theory specifies expected returns. When they adjusted for negative market excess returns they found a consistent and significant relationship between beta and rates of return. When Jagannathan and Wang (1996) employed a conditional CAPM that allows for changes in betas and in the market risk premium this model performed well in explaining the cross section of returns. Grundy and Malkiel (1996) also contend that beta is a very useful measure of risk during declining markets which is when it is most important. Finally, when Reilly and Wright (2004) examined the risk adjusted performance for 31 different asset classes utilizing betas computed using a very broad proxy for the market portfolio the risk-return relationship was significant and as expected in theory.

2.8 Summary and Gaps to be filled by the Study

Emery, Finnety and Stowe (2007) conducted a study to investigate debt-equity ratio in the private corporate sector in India, he tested the relation of debt equity ratio with age, total asset, retained earnings, profitability and capital intensity. He found that age, retained earnings and profitability were negatively correlated while total assets and capital intensity was positively related to debt-equity ratio. Pandey's (1999) study about the corporate managers attitude towards use of borrowing in India revealed that the practicing managers generally preferred to borrow instead of using other sources of funds because of low cost of debt due to the interest tax deductibility. Pandey (2001) conducted another empirical study examining the industrial patterns, trends and volatilities of leverage and the impact of size, profitability and growth on leverage. Sharpe (2007) studied the impact of size, growth, business risk, dividend policy, profitability, debt service capacity and the degree of operating leverage on the leverage ratio of the firm.

A number of studies have been done relating to financing and agency decisions but none has exploited on the influence of capital structure, cost of capital, cost of operation and agency decisions on returns of *matatu*. Therefore this study is aimed at influence of financial management practices with regard to capital structure, cost of capital, cost of operation and agency decisions on returns with a case of Mololine Service Limited in Nakuru Municipality.

2.9 Conceptual Framework

The framework below depicts the relationship that exists between cost of capital, cost of operation, agency decision, capital structure and returns of the investors. The independent variables integrate together to influence the returns.

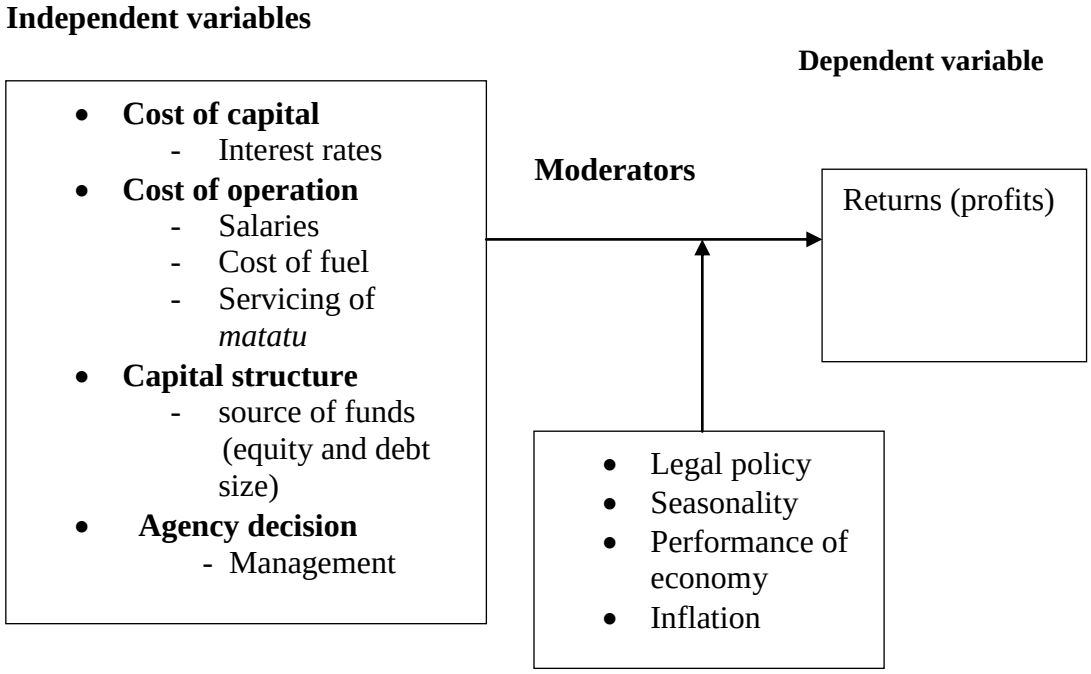

Figure 4: Financial management practices on returns

Source: Author's (2011)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the procedures that were used to investigate influence of financial management practices on returns of *matatu* industry within Nakuru municipality. The research design, the study population, sampling procedures and sample size, instrumentation, data collection, and data analysis procedures are presented in this section.

3.2 Research Design

The study applied a survey research design involving the Mololine Service Limited company conducting *matatu* business which operates on a number of routes in Nakuru Municipality. Survey is reliable due to its consistency as there is probability of producing the same results after repeated measurements and is also low on cost and information captured in a questionnaire is easy to understand. It also gives the research control of the research environment (Kothari, 2006).

3.3 Target Population

The study was focused on Mololine Service Limited. The target population included 78 *matatu* operators. The target population of 78 comprised of 30 shareholders and 48 non shareholders (MSL, 2011).

3.4 Sample Size and Sampling Design

The researcher applied stratified random sampling technique where the target population was divided into shareholders and non shareholders making a total of 2 strata. Mugenda and Mugenda (2003), a representative sample must be at least 10% of the entire target population. The researcher employed stratified random sampling technique to obtain a sample from the sub populations. In this case, proportional allocation according to the sizes of the samples from the different strata were worked out as recommended by Kothari (2004) to obtain a more precise estimate for each stratum. The desirable sample size was 56 respondents (72%) of the target population. The sample size was then divided by the sample size for each strata to achieve a desired representation.

Table 1: Sample Size Distribution

Respondents	**Frequency**	**Proportion allocation**
Shareholders	30	56 (30/78) =22
Non-shareholders	48	56 (48/78) =34
Total	**78**	**56**

3.5 Data Collection Instruments and Procedures

Primary data was collected through self administered questionnaires with both closed and open-ended question to seek for a non-biased response from the respondents and ensure that results were favourable to the objective of the study. The questionnaire were considered the best in collection of primary data because they provided an avenue for the researchers to ask probing questions, they are fast, cheap and can be self-administered (Mugenda and Mugenda 2003). The key variable for which data were collected were the cost of operations, the cost of capital, and the agency costs in relation to the dependent variable.

The researcher offered assistance on matters such as interpretation of questions that were unclear to the respondents. This ensured accuracy and honesty in filling out the questionnaires by respondents.

3.6 Data Analysis and Presentation

The collected questionnaires were first checked for inconsistencies and coded. The data was analyzed by descriptive statistics which involved measure of central tendency and dispersions as well as inferential statistics such as correlation and regression were used in investigating the influence of financial management practices on return with regard to cost of capital, capital structure, agency decision and cost of operation. The regression model was specified as follows

Regression model $Y= \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4$

Where Y is the dependent variable (Returns)

β_0 is constant returns

β_1 is the coefficient of cost of capital

β_2 is the coefficient of capital structure

β_3 is the coefficient of agency decisions

β_4 is the coefficient of costs of operations

X_1 is the cost of capital

X_2 is the capital structure

X_3 is the agency decisions

X_4 is the cost of operations

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter discusses data findings, analysis, presentation and interpretation. The researcher investigated the influence of financial management practices on returns where respondents were the shareholders and non-shareholders of MSL *matatu* industry. A structured questionnaire with different sections was used in this case. These sections included the demographic data of respondents, cost of operations, the cost of capital, capital structure, returns and agency decisions. Data findings were analyzed using the SPSS programme and presentation done through Tables and Charts. For data interpretation, both descriptive and inferential statistics were used. The inferential tools were the Spearman's Rank Test, factor analysis and regression while the descriptive interpretation was done through frequencies, mode and median.

4.2.1 Summary of Demographic Data

The respondents were divided into shareholders and non-shareholders. Since financial management is based on the proposition of shareholder wealth maximization (Pandey, 1999), this categorization was considered reasonable.

Table 2: Designation of Respondents

Respondents	Frequency	Percentage
Shareholder	21	32.8
Non-shareholder	34	61.8
Total	55	100.0

Source: Research data (2011)

The findings from Table 2 reveals that the shareholders are 38.2% and the non shareholders are 61.8% which implies that non-shareholders are majority for Mololine Services Ltd.

The respondents were also categorized as male or female, and the distribution shows that the male respondents were 57.7% and the female were 42.3%. This implies that males were highly represented in the study as shown in the Table 3.

Table 3: Gender of Respondents

Gender	Frequency	Percentage
Male	30	57.7
Female	22	42.3
Total	52	100.0

Source: Research data (2011)

Table 4: Gender and Number of *Matatus* Operated

Gender	Statistics			
	Minimum	Maximum	Sum	Mean
Male	6	30	375	12.50
Female	6	25	248	11.27

Source: Research data (2011)

The total number of *matatus* operated was 623; 375 of which are operated by males while 248 are operated by females. For either gender, the minimum number was 6 while males had a maximum of 30 and females a maximum of 25 *matatus* being operated by one individual.

Table 5: Education Level of Respondents

	Primary	Secondary	Tertiary	Graduate	Postgraduate	Total
Frequency	1	7	20	23	2	53
Percentage	1.9	13.2	37.7	43.4	3.8	100.0

Source; Research Data (2011)

Most of the respondents were graduates (43.4%), followed by tertiary level of education (37.7%), secondary level of education was at 13.2% while postgraduate were at 3.8% and primary level of education was at about 1.9%. The significance of the respondent's level of education is that a relatively sophisticated level of financial literacy is expected.

4.2.2 Benefits of Joining *Matatu* Sacco/Company

Stud surveyed the oft-mentioned benefits of joining an organized body like MSL by *matatu* owners and operators. The results given Table 6 would shed light on the perceptions of respondents about the benefits of MSL where each benefits was rated from scale 1 to 5 from not at all important to extremely important.

Table 6: Benefits of Membership

	N	Media	Mode
Branding	*55*	5	5
Maintenance and repairs	55	5	5
Radio communications	53	3	4
GPRS tracking	53	3	3
Legal representation	*52*	4	4
Liaisons	*54*	4	4
Parking	*53*	4	4
Gives customers clear reporting lines	*55*	5	5
Ticketing systems	*55*	5	5

Source: Research data (2011).

In examining the benefits of MSL, the results indicates that most of the respondents agree that they attach great importance to this benefits and that's why they join the Mololine Service Limited which shows the mean of 5 and mode of 5. These findings are consistent with the findings of Pandey (2001) which indicate that in a bid to

maximize owners wealth, one should strive to maximize returns in relation to the given risk and should seek courses of action that avoid unnecessary risks, ensure maximum return funds flowing in and out of the firm, should be constantly monitored to assure investors that they are safeguarded and properly utilized.

4.2.3 Cost of Capital, Capital Structure and Returns

Table 7: Summary of Sources of Financing

	N	Median	Mode
Equity financing	55	4	5
Debt financing	53	4	4
Cost of debt	54	3	3
Ease of access to debt financing	53	3	4
Risk of debt financing	54	2	2
Interest coverage	53	4	4
Security for loan	51	4	4
Bank relationship	54	4	4
Ease of access to various sources of funding	53	4	4
How financing affects operational efficiency	54	4	4

Source: Research data (2011).

The researcher in this case investigated the influence of the cost of capital and capital structure on the returns of Mololine Service Limited and the statements were rated from 1 to 5 from strongly disagree to strongly agree respondents, indicating to what extent the respondents agree and Table 7 illustrates some of the findings. When the respondents were asked on the most preferred source of capital, equity received higher rating than debt; mode equal to 5 and 4, for equity and debt respectively. Brigham and Ehrhardt (2008) said that managers should choose the capital structure that maximizes shareholders wealth. The basic approach is to consider a trial capital structure based on the market values of the debt and equity and then estimate the wealth of the shareholders under that capital structure. It is not enough to just

acknowledge the more preference for owner contributed funds, but other factors need to be taken into account to form a more complete picture. In this regard, the cost of debt or the interest rate is considered since it is the major hindrance to the use of debt.

The determinants of source of financing, risk of debt financing, is considered to be the most important which is inferred from the lower mode of 2. Ehrhardt (1994) argues that cost of debt is a key factor in choosing the mixture of debt and equity used to finance the firm and in decisions to lease rather than to buy assets. Pandey (2001) said the investor's decisions to use debt in a given period, reduces its future debt capacity as well as increasing risk to shareholders'. Similarly the firm's decision to use equity capital will enlarge its potential for borrowing in the future. The other issues that one considers when applying for loan are the risks associated with debt such as the potential for bankruptcy, interest coverage, security for loan, bank relationship, the access to capital markets, and the effects of financing on the operational efficiency of the firm. From Table 7 the researcher can say that while debt is not the most preferred source of capital, two factors help make it likely to be used: security and access.

4.2.4 Agency Decision

Table 8: Agency Decision

	N	Median	Mode
Incentives to monitor management	55	4	4
Convergence of interest	54	4	4
Aligning management objectives with value maximization	54	4	4
Focus on the long-term survival of the firm	54	4	4
Substantial value at risk encourages continuous monitoring	55	4	4
Reasonable administration costs	55	4	4
Empire building as a management objective	55	2	2

Source: Research Data (2011)

The researcher sought to find from the respondents the ways in which agency decisions affected the returns in PSV industry in Mololine services limited. The agency theory implies that the management of the company have to act on behalf of

the shareholders of the company and in this case the management are referred as the agents (Gitman, 2005). Statements were rated from scale 1 to 5, from strongly disagree to strongly agree indicating the respondents extent of agreement. The findings indicates that all the agency decisions affected the returns with a median and mode of 4 each with an exception of empire building as a management objective which had a mode of 2 and a media of 2.

4.2.5 Cost of Operations

Table 9: Cost of operations perceptions

	N	Median	Mode
Fuel cost increases	55	5	5
Oil, tyres, and other parts cost	55	4	4
Insurance cost	54	3	3
Bank interest	50	3	4
Labour cost	53	4	4
Maintenance cost	51	4	4
Distance traveled	53	4	4
Police payments	50	3	5
Payments to government agencies	55	3	3
Sacco registration costs	55	3	2

Source: Research data (2011)

Cost of operations in the *Matatu* industry is one key determinants of profitability. This research sought to investigate the cost structure of MSL and how it affects the returns. Some of the expenses investigated for this study included fuel costs, oil parts and other supplies, insurance costs, labour costs, maintenance cost, distance since *matatus* usually follow particular routes, and bribes paid to policemen. The costs were rated from scale 1 to 5 from not at all to a very great extent. Table 9 shows, the big ticket item is the fuel cost. The mode and median for this item is the highest at 5 which indicates that it most affects the returns. But generally, respondents agreed that this expense affects the returns.

4.3 Correlation Analysis

The Table 10 below indicates the correlation analysis of cost of operation on returns.

Table 80: Correlation Analysis for Cost of Operations

	N	Correlation coefficient	Sig
Fuel cost increases	51	-.786	.028
Oil, tires and other parts cost	51	.215	.130
Insurance cost	50	.130	.275
Bank interests	46	-.293	.048
Labor cost	49	.314	.034
Maintenance cost	48	-.164	.265
Payment to government agencies	51	-.130	.174

Source: Research data (2011)

Table 10 indicates that there is a strong negative correlation between the fuel cost increases and the return. The respondent indicated that fuel cost increases actually affect the returns and is the key variable of cost of operations which significantly influence the returns of MSL; plus the labour cost. Payments to government agencies indicated a negative correlation with the returns which implies that respondents do not view them as avoidable or differential but as part and parcel of continued operations. However, this variable is not significant.

4.4 Factor Analysis

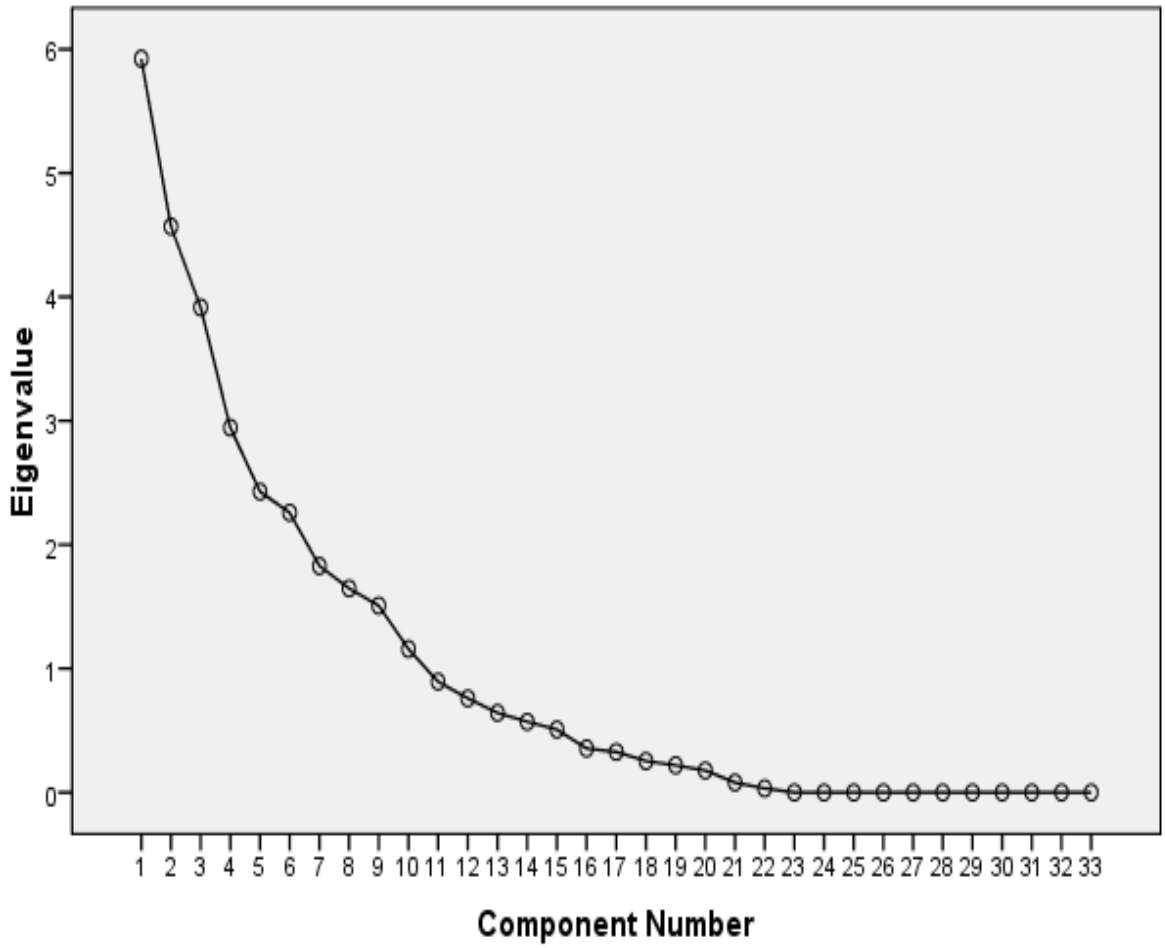

Figure 5: Scree Plot

Figure 5 shows the Scree Plot for factor analysis which reduces the number of variable to four factors which are above eigenvalue 2. The factor analysis was carried out so that to generate eigenvalue in order to run the regression analysis for the variables.

Table 11: Regression Results

Model		B	Std. Error	t	Sig.
1	(Constant)	-.492	.275	1.786	.092
	Cost of capital	-.751	.291	2.582	.019
	Capital Structure	-808	.276	2.923	.207
	Agency decision	-.107	.277	3.386	.009
	Cost of operations	-.361	.275	2.312	.023

a. Dependent Variable: Returns

Source: Research data (2011)

Table 11 shows the regression of variables to show the relationship between the costs of operations, agency decisions, cost of capital and capital structure. The aim was to investigate how financial management practices affect the returns. In this case the independent variables are the cost of capital, capital structure, agency decisions, cost of operations and the dependent variable was the returns of the MSL.

4.5.1 Cost of Capital

Regression results in Table 11 shows that cost of capital significantly affects returns at 10% with a coefficient of -0.751 indicating that an increase of 0.751 leads to a decrease of returns by 0.751. The cost of equity and debt overall and for individual projects profoundly affects both the return of the investment a company makes. Expectations about returns determine not only what projects manager, will and will not invest in but also whether the company succeed financially (Peavler, 2002). Michael (2004) in order to build new plants, buy new equipment, develop new products and upgrade information technology business have to have money or capital. For every business decision a business owner or chief financial

officer has to decide if the cost of capital or the cost of the money it takes to invest in the project.

4.5.2 Agency Decision

The results confirm that agency decision affects return at 10% significant level. Agency costs are inevitable within an organization whenever the principals are not completely in charger. Agency decision involve costs usually spent on providing proper material incentive (such a performance bonuses and stock options) and moral incentive for agents to properly execute their duties thereby aligning the interests of principal owners and agents (Mokal,2000). Gitman (2005) argues that corporations face potential conflicts between owners and managers because the objectives of managers differs from those of the firms shareholders.

4.5.3 Cost of operations

Cost of operation significantly affects the returns at 10% as from table 11, operating cost are incurred by all organization including the equipment perhaps intangible assets do not incur operating cost. Cost operations depending on the sectors it has its cost structure and it affects the returns of the organization or the firm its taken as a business strategy implemented in main companies to gain a huge market (Pandey, 2001).

Table 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.714	.509	.394	1.28766

Source: Research data (2011)

Table 12, R = 0.509. This means that the model explains only 50% of the variation in returns while 50% is explained by variables not in the model.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section contains the summary and conclusions arrived from the analysis results, makes recommendations based on those conclusions and suggests areas that will need to be researched on to improve the body of knowledge in this field.

5.2 Conclusions

This study undertook to seek an in depth understanding on the influence of financial management practices on the returns in *matatu* industry with a particular interest in the MSL in Nakuru Municipality.

The conclusion of the hypotheses was that:

a) Cost of capital affects returns in PSV *matatu* industry in Nakuru Municipality.

b) Agency decisions affect returns in PSV *matatu* industry in Nakuru Municipality.

c) Cost of operations influences returns in PSV *matatu* industry in Nakuru Municipality.

The study found out that under cost of capital, most shareholders and non shareholders have higher preference for owner contributed capital or equity. Nonetheless, debt is also used invariably by the respondents and major elements that determine its use are the cost of capital and risk in this context was taken to mean the potential of making losses.

Agency decision also emerged as a major factor in the financial management decisions, as it presented the attendant risk that the shareholders and non shareholders may become complacent and fails to put in place the proper mechanisms for monitoring and oversight so that value is not lost through actions of those exercising control as a result of divergence of interest. Cost of operations has the greatest influence on returns and these costs significantly affect the returns of MSL.

5.3 Recommendations

This study therefore makes the following recommendations regarding the financial management practices at the MSL as measures that can be undertaken to improve returns or safeguard value. First, as an organization, MSL should seek new ways of making it possible for members to access loans at lower rates by, for instance, entering into funding commitments with the financial institutions. It should also have plans to access a wider pool of equity financing, for example, by listing in the capital markets.

Though the perception that there are limited agency conflicts in the organization is positive, its downside could be laxity leading to expropriation of the organization's resources. Therefore, higher degree of vigilance in terms of monitoring is recommended. Mechanisms should be put in place to ensure good corporate governance practices.

The *matatu* industry is afflicted by various costs which erode the returns from the industry. While certain costs are essential for operations to proceed, some other costs could be done away with. However, while respondents had the view that labour cost ranked the same as bank interest, care needs to be taken to ensure that workers are properly compensated to stave off the possibility of collusion in order to make some extra returns.

5.4 Suggestion for Further Study

A study about *matatu* industry can adequately address all the issues in this dynamic and yet complex sector. This was a case study and therefore suffers from certain restrictions that would not be present when cross sectional study of all *matatu* firms is undertaken. It is with this in mind that an empirical study is recommended about the industry in order to bring out the various cost structures, agency issues, capital structure and cost of capital. Undoubtedly, this study will form an important part in that undertaking as the study moves from a single unit to multiple units.

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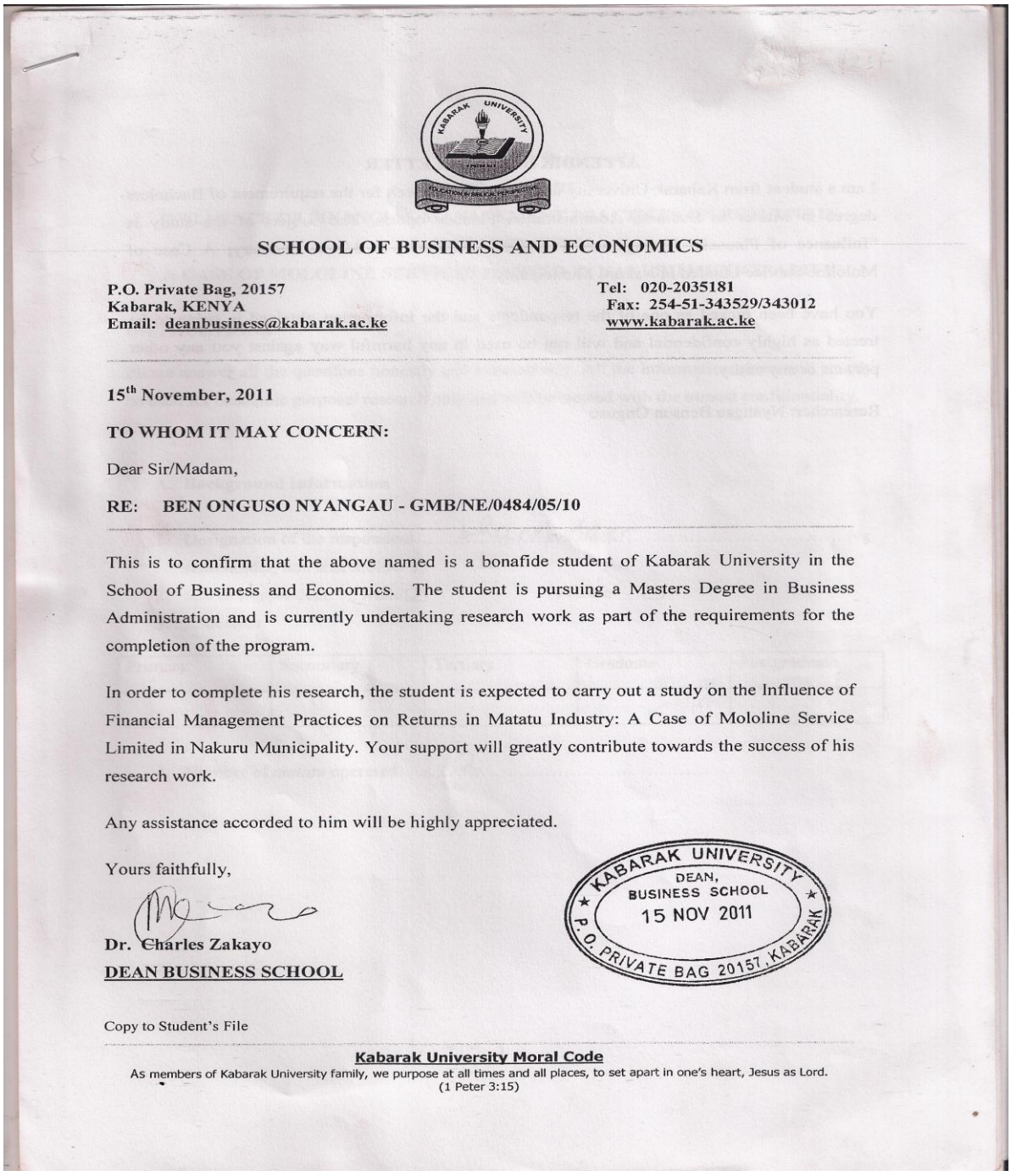
APPENDIX I: COVER LETTER

I am a student from Kabarak University undertaking a research for the requirement of Bachelors degree in Master in Business Administration Finance option. The subject of the study is “Financial Management Practices on Returns; A Case of Mololine Service Limited in Nakuru Municipality”.

You have been picked as one of the respondents and the information obtained is going to be treated as highly confidential and will not be used in any harmful way against you any other persons or any entity.

Researcher: Nyangau Benson Onguso

APPENDIX II: LETTER FROM THE UNIVERSITY



SCHOOL OF BUSINESS AND ECONOMICS

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www.kabarak.ac.ke

15th November, 2011

TO WHOM IT MAY CONCERN:

Dear Sir/Madam,

RE: BEN ONGUSO NYANGAU - GMB/NE/0484/05/10

This is to confirm that the above named is a bonafide student of Kabarak University in the School of Business and Economics. The student is pursuing a Masters Degree in Business Administration and is currently undertaking research work as part of the requirements for the completion of the program.

In order to complete his research, the student is expected to carry out a study on the Influence of Financial Management Practices on Returns in Matatu Industry: A Case of Mololine Service Limited in Nakuru Municipality. Your support will greatly contribute towards the success of his research work.

Any assistance accorded to him will be highly appreciated.

Yours faithfully,

KABARAK UNIVERSITY
DEAN,
BUSINESS SCHOOL
15 NOV 2011
P.O. PRIVATE BAG 20157, KABARAK

Dr. Charles Zakayo
DEAN BUSINESS SCHOOL

Copy to Student's File

Kabarak University Moral Code
As members of Kabarak University family, we purpose at all times and all places, to set apart in one's heart, Jesus as Lord.
(1 Peter 3:15)

APPENDIX III: QUESTIONNAIRE

"FINANCIAL MANAGEMENT PRACTICES ON RETURNS; A CASE OF MOLOLINE SERVICE LIMITED IN NAKURU MUNICIPALITY".

INSTRUCTIONS

Please answer all the questions honestly and exhaustively. All the information given will strictly be used for academic purpose/ research only and will be treated with the utmost confidentiality.

A. Background Information

1. Designation of respondent……
   (e.g. shareholder, non shareholder)

2. Sex of Respondent: Male ☐ Female ☐

3. Education

Primary	**Secondary**	**Tertiary**	**Graduate**	**Postgraduate**

4. Number of matatu operated…….

B. General Information

Please tick the box that most appropriately indicates the importance you attach to the following services that may be provided by Mololine Services Limited. The scale 1-5 ranges from not at all important to extremely important

		Not at all important **1**	Low importance **2**	Neutral **3**	Moderately important **4**	Extremely important **5**
1	Branding					
2	Maintenance and repairs					
3	Radio communication					
4	GPRS tracking					
5	Legal representation					
6	Liaisons					
7	Parking					
8	Gives customers clear reporting lines					
9	Ticketing system					

C. COST OF OPERATIONS

Please tick below as appropriate indicating the extent to which the following factors affect the financial performance of the matatu industry.

		Not at all **1**	To a low Extent **2**	To some extent **3**	To a greater extent **4**	To a very great extent **5**
1	Fuel cost increases					
2	Oil, tyres and other parts cost					
3	Insurance cost					
4	Bank interest					
5	Labour cost					
6	Maintenance cost					
7	Distance traveled					
8	Police payments					
9	Payments to government agencies eg. Kenya Revenue Authority, council etc					
10	Sacco registration costs					
11	Others (specify please)…… …… ……					

12. How much money do you spend on fuel per day?

Less than 3,000 ☐

3,000 – 6,000 ☐

6,000 – 9,000 ☐

9,000 – 12,000 ☐

above 12,000 ☐

13) How much money do you spend on the insurance policy per year?

Less than 15,000 ☐

15,000 – 20,000 ☐

20,000 – 25,000 ☐

25,000 – 30,00 ☐

Above 30,000 ☐

14) How much money do you spend on servicing the matatu per month?

Less than 3,000 ☐

3,000 – 6,000 ☐

6,000 – 9,000 ☐

9, 000 - 12,000 ☐

Above 12,000 ☐

15) How much money do you pay driver per month?

Below 15,000 ☐

15,000 – 20,000 ☐

20,000 – 25,000 ☐

25,000 – 30,000 ☐

Above 30,000 ☐

16) How did you finance your matatu?

Debt	☐
Equity	☐
Debt & Equity	☐

If through Debt what was the interest rate?

Below 15%	☐
15% - 20%	☐
20% - 25%	☐
25% - 30%	☐
Above 30%	☐

D. CAPITAL STRUCTURE AND COST OF CAPITAL

In order to make an investment, that is buy a *matatu*, you need to raise money to fulfill that. In this section, you are going to provide information relating to your capital source, challenges and benefits of that source of capital.

You will indicate the extent to which you agree with the following statements in the Table below

		Strongly disagree 1	**Disagree 2**	**Not sure 3**	**Agree 4**	**Strongly agree 5**
1	Owner contributed capital is the best way to finance *matatu* business					
2	Banks are more willing to lend to Mololine members than to those who are not affiliated to Mololine					
3	Interest rates charged by banks to those affiliated with Mololine are lower that is charged to unaffiliated investors					
4	To grow the business, the first choice of funds will be bank loan					
5	Because the number of passengers change depending on the season, yet banks require to be repaid regularly and promptly, servicing the loan can be very difficult					
6	The demand for transportation service can guarantee a steady supply of money enough to take care of the bank loan repayment					
7	Investment in *matatus* is safer since they can be used as security for loan					
8	Through Mololine Services Limited, members are better able to build relations with the lenders hence reducing the cost of borrowing					
9	Mololine Services Limited provides a ready avenue for raising money for new investment opportunities					
10	The obligation to pay back owners and lenders does not hinder the smooth running of MSL.					

E. AGENCY

		Strongly disagree 1	**Disagree 2**	**Not sure 3**	**Agree 4**	**Strongly agree 5**
1	*Matatu* owners have a very strong incentive to monitor the operations of Mololine Services Limited management					
2	*Matatu* owners themselves manage, through representatives, the operations of Mololine Services Limited					
3	*Matatu* owners (investors) provide proper incentives to Mololine management services limited so that they in turn concentrate on maximizing the wealth for the owners					
4	The management of mololine services limited view the long-term survival of the organization as more important than their own personal gain					
5	Owners are long-term investors with substantial wealth at risk, making them more concerned about day to day operations of mololine Services Limited					
6	The administration costs of Mololine Services Limited are reasonable					

7	Mololine Services Limited management are intent on growing the business beyond the best levels for profitability.					

Please tick as appropriate in the following Table, indicating your extent of agreement

F. RETURNS

		Strongly disagree **1**	Disagree **2**	Not sure **3**	Agree **4**	Strongly agree **5**
1	Money I receive by affiliating with Mololine is more than I would generate elsewhere					
2	Mololine Services Limited provides investors with a more steady predictable cash flows.					
3	I am very satisfied with the cash generated from the business considering the risks involved					
4	*Matatu* business has operations that generate cash routinely so that there is no need to borrow or ask for overdraft facilities					
5	The operations of *matatu* business are not readily affected other problems in the economy such as unemployment, rising prices, etc					
6	Changes in the business environment brought about by government directives affect the returns from the business favourably					
7	There has been marked growth in demand for transport services that has improved my earnings from the business					

8) Please provide the following information on your daily returns from each of your matatu.

i) How much returns do you make during your best day in business?

Below Kshs 3,000	3,000 6,000	6,000 9,000	9,000 12,000	12,000 And above

ii) How much returns do you make during your worst day in business?

Below Kshs 3,000	3,000 6,000	6,000 9,000	9,000 12,000	12,000 And above

Thank you very much for your time and cooperation.