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Effect of Capital Structure on the Performance of Microfinance Institutions in Oman

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Abstract. The primary objective of this study is to determine the relationship between effect of capital structure and performance of microfinance institutions in Oman. In this research, a questionnaire was used to obtain the results and the qualitative study where the qualitative data were collected through primary date. The target group to answer this questionnaire was from the owners of microfinance in Oman, and 10 answers were obtained. The results showed that there is a positive relationship between capital structure and performance of microfinance. The capital structure is important in improving the performance of microfinance and maintaining its proper management. It also leads to improved performance, which results in an increase in profit, the correct management of expenses, and a reduction in losses. Empirical results indicate that effective use and creation of social capital is vital to improving the effects of microfinance and that the owners of microfinance should focus more on harmonious social relationships and deliberately building social capital. In addition, the microfinance owners should work with a plan to reduce expenses and increase profitability, as well as recognize the correct management of capital structure. They should understand the structure of capital and the positive impact on the performance of microfinance.

Keywords: Capital Structure, Performance, Microfinance Institutions, Oman.

INTRODUCTION

The capital structure of a microfinance institution (MFI) is defined as the combination of debt and capital that are employed in its operations [30]. Microfinance's capital structure is a blend of multiple values. MFIs can select from a variety of capital structures. MFIs can have access to leasing agreements, including finance, issuing convertible bonds, microfinance, as well as finalizing future transactions or exchanging bond swaps. MFIs can also issue a variety of securities in various combinations to maximize total market value [41]. In achieving a return on equity (ROE), firms can use a diversity of strategies and techniques. One strategy is capital structure. The connection between ROE and capital structure is indeed of considerable standing to all firms [3, 6–9, 13, 39]. For banks and MFIs, the capital structure they choose is critical, as they react sensitively to changes in the level of debt due to their low equity compared to the total of balance sheet. Furthermore, banks and MFIs' capital structures are strictly [12] and extensively regulated, and decisions about capital structure are crucial, not only for managers and regulators but also for shareholders. The capital structure of banks and microfinance is of particular interest to shareholders as it is detrimental to the returns and security of their investments in the bank and microfinance. However, conventionally, the bank and microfinance with high leverage are at risk; therefore, it is expected to pass high returns on to its shareholders. Therefore, the bank and microfinance face a risk when deciding on capital structure [12]. Microfinance includes different kinds of equity on its balance sheet – knowing how much of the property is in debt and how much equity can be used to estimate the equity or ownership of microfinance, equity, encompassing ordinary stock, preferred stock, retained earnings, and short- and long-term debt (such as mortgages). The term debt capital is a term used to describe the capital structure of microfinance. The most significant factor is the capital structure, which represents the amount of money invested in microfinance. The capital structure of microfinance reveals the significant influence and potential outcome of the microfinance's earnings as well as the profits distributed to shareholders.

Money invested, land purchased, equipment, structures, and other items are all included in this category. That is, it includes all purchased with cash to be used in the business. The capital structure of microfinance includes anything that can be turned into cash or used as collateral for corporate loans [28]. Studies on a relationship between institutional environment and capital structure revealed that a better institutional environment improves a firm's ability to achieve advantages of external financing [22, 42, 43]. Moreover, the core work of this research is that more effective institutions have an impact on credit market information frictions and business-funding policies. Many of these studies used data from publicly traded microfinances, focusing on the effects of protection for investors, development of the financial industry, and corruption. All of these factors have an impact on capital structure decisions in public microfinances [2]. Small businesses contribute to the economy by creating money and jobs. They have the potential to grow into large corporations in the future. In addition, the sector has played an important role in supporting entrepreneurship, export promotion, production, and job creation [15].

PROBLEM STATEMENT

Several factors such as low-profit margins, portfolio of poor quality, low efficiency of operations, and operational costs highly characterized the financial performance of microfinance firms. MFIs have insufficient financial results, due to low ratios of efficiency, shrinking operational margins net, and shrinking portfolios [32]. It is identified during the sector that microfinance governance (CG) has turned out to be one of the vital problems in comparing the strengths and functions of a company [5]. According to Rutanga et al. [37], despite the fact that although MFIs exist in many developing nations, millions of families and individuals still lack access to loans and other financial services. This is because the microfinance organization has higher operating and capital costs, which makes it difficult to meet client demand and help them achieve their financial and social goals. Furthermore, MFIs have two major issues: first, the volume of capital provided by these companies is quite low; therefore, they are unable to cover their expenses efficiently and build their businesses. Second, MFI marketing of financial services has been a key strategic aspect in emerging nations in this regard. Using commercial capital and ensuring that the impoverished have access to basic formal financial services for people is, of course, the major goal. Moreover, monetary policies have created a favorable climate for profit-seeking microfinance organizations, which can attract business capital from investors in the form of deposits, equity, and loans. Thus, it is vital for MFIs to stay sustainable, continue to encounter the forces of extreme competition, and thrive in a converting environment. In Oman, small organizations face numerous troubles including loss of credit score records and the absence of collateral, which prevent their increase and improvement in growth [10, 11, 16, 18, 23, 24]. Therefore, with the improvement of small organizations, there is a chance for monetary establishments to put money into them. Financing in such establishments is averted via means of business banks and microfinance due to those risks. Thus, the main objective of this study is to determine the relationship between effect of capital structure and performance of MFIs in Oman.

LITERATURE REVIEW

Adusei and Sarpong-Danquah [2] determined the outcome of capital structure on monetary performance of credit-taking MFIs using secondary data and concluded that the ratio of core capital financial performance and total capital has a negative relationship, which was weak and unobserved. Ngatno et al. [30] investigated capital structure and financial performance on return on assets (ROAs) and net income boundary using secondary data and found that long-time period debt ratio has a poor courting with internet income margin and going back on assets, while quick-time period debt ratio has a good courting with internet income margin. This means that quick-time period debt is useful to operations of quoted purchaser items firms. Adusei and Sarpong-Danquah [2], using data from 532 MFIs in 73 countries spread across the 6 microfinance areas in the world, demonstrated an effect of formal quality on capital construction in the microfinance situation. They found that there is a statistically negative relationship with the capital structure in the long and short term, such that MFIs in nations with an improved institutional situation are not likely to use more debt. Lassoued (2021), using a sample of 575 MFIs, also investigated the influence of capital construction on earnings management of microfinance organizations and found that microfinance organizations manage their incomes for outdoor finance purposes. Therefore, debt displays a negative result on earnings, size and efficiency have a key role in determining frivolous capital structure and productivity, and strategic flexibility is an important aspect in introducing operations to improve their productivity.

Management is essential for profit and noncommercial MFIs. However, given equity incites managers of MFIs to interact this application in nonprofit MFIs. Taddese [45] conducted a study on capital structure with the designated branch microfinance organizations. He used secondary data collected and audited financial statements. He analyzed five independent variables: growing (negative), effectiveness (positive), firm size (positive), earning instability (positive), and asset palpability (positive), which are statistically significant individually. That means, MFIs at all company levels increase debt volume to asset tangibility more than the present status. Özcan [33], in his study on the connotation between capital structure and financial performance using a panel data sample of 29 publicly traded airports from 20 countries, concluded that higher overall and long-term financial leverage tends to lower the ROAs, although it correlates with the profit on equity. Pascal et al. [35] found that there is a positive connection between the tenure of the CEO and the debt share of MFIs and that MFIs need to improve access to debt capital to cover the high global demand. Ahmad et al. [4] reviewed the effect of proficiency, output, mass, and profitability of MFIs on the capital structure of the microfinance sector using annual financial statements and found that size and efficiency have a key role in determining frivolous capital structure and productivity and strategic flexibility is an important aspect in introducing operations to improve their productivity. PeiZhi and Ramzan [36] assessed the impact of corporate governance and capital structure on the performance of market-oriented, accounting-based firms and concluded that the corporate governance construction with the board of directors, self-governing director, institutional stockholders, audit committee, and womanly managers increase its performance. Almajali and Shamsuddin [14], with a sample of 19 insurance multinationals, examined the relationship between capital structures on profitability and found that an increase in influence station is related to an increase in profitability. Wambua [46] found the effect of capital structure on the financial sustainability. He used secondary and found that monetary sustainability changes by 0.569 and 0.738 for each unit modification of debt or reserved incomes, respectively, so capital affects negatively on financial sustainability. Mohamud [26] investigated on how microfinance should choose their optimal debt to equity financing ratio, using descriptive methods from 13 microfinance banks. The results revealed that there was negative and significant correlation of liquidity with financial leverage and that the inverse correlation between growth and leverage was negative. Also, microfinance banks must have sufficient liquidity to repay their debt obligations. Rutanga et al. [37]determined the impact of capital structure on MFIs' financial viability and found out the amount to which capital structure moves. Data were gathered from a panel of 20 MFIs' annual financial reports. The findings reveal that employing share capital to finance a corporation's assets has a negative and significant impact on its reappearance on full assets as well as its operational and financial independence. Parvin et al. [34] found the relationship between capital structure and financial performance of microfinance, in which panel data reversion analysis was carried out using random- and fixed-effect models. Results showed that findings give to refining the thoughtful of the capital structure of microfinance organizations and what it means in terms of performance and long-term viability. Almansour et al. [15]emphasized on the influences related to microfinance as it benefits in ornamental the firm's performance. The study used a quantitative methodology on 308 small enterprises. The results prove that performance was associated with microfinance services managerial training, training skills, and loan size. Chauhan et al. [21] analyzed and explored the impact of capital structure on the performance of microfinance organizations, aiming for a binary lowest line in terms of outreach and financial sustainability, and also the relationship between MFIs' capital structure and financial and social performance, using a panel data set of 46 nonbanking monetary MFIs with random- and fixed-effect models. The regression results showed highly leveraged MFIs performed better by lowering operational costs and increasing ROE. Nzeribe [31] with a full panel data set of 38 nations investigated the impact of MFIs on financial inclusion and revealed that the presence of a public credit registry had a considerable impact on financial inclusion. Nelson and Peter [29] analyzed the relationship between capital structure and company performance of microfinance banking sector, using descriptive statistics and the regression approach, and found a negative and insignificant relationship between debit-to-equity ratio and profit on equity, a positive and insignificant relationship between long-term debt and ROE, and a positive and significant relationship between total debt and ROE. Oricom and Omeke [32], based on agency theory, investigated the relationship between capital structure, credit risk organization, and financial performance of microfinance organizations. The study examined 64 MFIs using a cross-sectional research approach. The data were analyzed using connection and multiple regression analysis; the findings showed that praise risk organization has a major impact on financial performance. In addition, the capital structure has no bearing on financial performance. As a result, credit risk assessment, monitoring, and mitigation are critical for MFIs to achieve healthy financial performance. Al-Thuneibat [17] provided actual information on the relationship between shareholding businesses' tenure structure, capital structure, and financial presentation on the Amman Stock Exchange (ASE). He employed four criteria to determine the ownership structure: foreign, managerial, institutional, and concentrated ownership. The leverage is used to assess capital structure, while the ROA is used to assess performance. The findings revealed that different forms of ownership structures had different types of performance correlations. Institutional and foreign ownerships have a detrimental impact on performance, whereas concentrated and managerial ownerships have a beneficial impact. The findings also revealed that financial influence has a positive effect on the relationship between ownership structure and firm performance.

RELATIONSHIP BETWEEN CAPITAL STRUCTURE AND PERFORMANCE

Mungereza [27] found that the negative relationship between the core capital monetary performance share and the total capital ratio was weak and unobserved. Almansour et al. [15] showed that performance was intentionally related to many microfinance services such as management training, exercise skills, and credit size. Therefore, capital has a positive influence on the performance of small companies. Adusei and Sarpong-Danquah [2] found that there is a statistically negative relationship with the capital structure. In contrast, there is a negative result on pays managing for each income and noncommercial MFIs (Lassoued 2021). Ahmad et al. [10] found that size and efficiency have a key role in determining frivolous capital structure and productivity and strategic flexibility is an important aspect in introducing operations to improve their productivity, which gives a positive association. Chauhan et al. [21] concluded that greatly leveraged MFIs perform better by lowering operational costs and increasing ROE, which gives a positive relationship. There is a positive impact to educating the accepting of the capital construction of MFIs [34]. Al-Thneibat [17] found that financial influence has a positive effect on the relationship between ownership structure and firm performance.

H1: There is a positive relationship between capital structure and performance of microfinance.

METHODOLOGY

This is a cross-sectional study using qualitative methods, in which data are collected through primary data. The dependent variable in this research was performance MFIs in Oman and the factors affecting profit management, such as capital structure, are independent variables. The study population includes owners of microfinance in Oman. A sample size of 10 owners of microfinance participated in the study. This study aimed to examine the relationship between capital structure and performance of MFIs by conducting an interview with the owners.

Source Data

The study is conducted using primary data sourced from interviews of the owners of MFIs. The interview of the responders is conducted for the institutions owner. The methodology for the in-depth interviews was a semi-structured approach consisting of questions about the capital structure. Each interview was about 45 minutes. Interviews begin with questions regarding personal background in order to establish familiarity with them and break the ice, followed by a general discussion about capital structure. The current study applied the semi-structured interviews to validate the results obtained by the quantitative study. Semi-structured interviews might be able to solicit elements that need to be further explored and to explain themes that have emerged from the use of a quantitative data collection. Moreover, semi-structured interviews are used not only to disclose and understand "the what" and "the how" of a phenomenon but also to place more emphasis on exploring "the why" [40]. To measure the impact of capital structure on the performance of MFIs in the Sultanate of Oman, we used personal interviews with business owners. The number of interviews, taken in random manner, was 10. The questionnaires were taken from several research studies [1, 25].

RESULTS

Descriptive Statistics

Table 1 shows that 70% of small companies has one owner and 30% had two owners, indicating that majority of MFIs have one owner to manage the business.

In Table 2, the lowest debt is 0, meaning that the owner did not take any loans from the bank, and the highest debt is 12,000, indicating that the owner of the business took out a loan of 100%.

In Table 3, the highest number of return on investment (ROI) is 120% and the lowest number is 1.66%. The company exceeded 100% of its profits, so its ROI amounted to 120%.

The Impact of Capital Structure on Performance

Capital structure shows an important part in organizational performance [34]. Sources of funds for microfinance and their financial sustainability and performance become an important issue for them. Capital structure of firms is firmly related to the ability of businesses to fulfill the requirements and boast the wealth of several stakeholders [29]. Microfinance is considered a recent, demand, and rich field on the research side and its wider room to conduct studies contextually. Fascinatingly, this field is that its

Table 1. Percentage of Owners.

Number of Owners	Percentage
One owners	**70%**
Two owners	**30%**

Table 2. Descriptive of Capital Structure.

	Capital Structure		
No	Debt	Equity Capital	Total Investment
1	0	13000	13000
2	5000	13000	18000
3	4500	19000	23500
4	0	5000	5000
5	0	7000	7000
6	0	5000	5000
7	0	20000	20000
8	0	10000	10000
9	0	5000	5000
10	12000	12000	24000

Table 3. Return on Investment.

No	Profit Before Tax	Total Investment	ROI
1	250	13000	1.92%
2	6500	18000	36.1%
3	1140	23500	4.85%
4	1000	5000	20%
5	500	7000	7.14%
6	6000	5000	120%
7	350	20000	1.75%
8	1500	10000	15%
9	100	5000	2%
10	400	24000	1.66%

Profit/total investment = number * 100 = ROI.

primary improper is one "reduction in poverty" according to Ahmad et al. [4]. Our first question was: Is capital structure important in management of the company? One interviewee (P1) said: "Yes, very important..." Another interviewee (P2) said: "It depends on its proper management." The third one (P3) said: "Yes very." The fourth interviewee (P4) said: "It plays an important part in capital in improving performance." This result is reliable with methodology of Ramli, Latan and Solovida (2019), in that certain capital structure causes directly move firm financial performance. The second question is: "Does capital structure affects your performance (profitability)?" P1 said: "It does not affect. But the management of the company, dealing with customers and a beautiful style, has a big role in profit." P2 said: "It does not affect." P3 said: "For me, managing capital was a big challenge, but I overcame it. A realistic financial plan must be drawn up." In addition, P4 said: "Effective, the more capital increases, the greater the creativity and profit." P5 said: "Very impressive." As for the sixth director (P6), the answer was: "Yes, it has a great impact, the capital has a big role and the capital must be organized and it must be fixed and not to buy personal and non-company things." P7 was supportive by saying, "Yes, effective. The more capital there is, the more we will be able to provide goods in a large quantity and improve the company's services." P8 said: "Yes, it affects, because the higher the amount of capital, the more the profit is, and vice versa. But of course not always because it depends largely on several factors, including correct management and correct marketing." P9 added: "Yes, it affects the income and management of the company." Finally, P10 said: "The cash structure acting an important role in refining store performance and raising the level of production. For example, if the capital is high, this leads to modifying the interior furniture and making it attractive to the customers." The results of the study are similar the results of AL Mansour et al. [15], in which performance was intentionally related to many microfinance service areas such as management training, exercise skills, and finance size. Therefore, capital has a positive impression on the concert of small companies. Another finding connects with our result that capital efficiency has a direct effect on organizations' output [20].

From the third question, it was shown the extent of the impact of management and its importance: "Does everything that was organized and managing capital well lead to increased profitability?" All the answers were in favor. P1 said: "From my point of view, management is very important to reduce the proportion of expenses and increase profitability." P2 said: "Yes, very important." P3 added: "Strong and decisive management reduces losses and increases sales in a smart way." The fourth question is: "Is capital structure affects the company's performance in general? P1 said: "Yes, the company's performance affects its capital structure."P2 said: "Yes, they are relationship." The results were very similar and supportive of each other that the capital construction has a different influence on the concert of companies, such as the evolution of the share price in the market [44]. Zuhroh [48] also concluded that capital is a variable that mediates the outcome of liquidity, effectiveness, and volume on a company's value. The fifth question is: "Is the percentage of profits fixed or increasing? P1 agreed and said: "Yes, the profits are increasing." Furthermore, (P2) stated: "It depends on market conditions, but is mostly increasing." According to Bayraktaroglu et al. [20], efficiency has a moderate part in the relationship between efficiency of funds employed and effectiveness. The sixth question is: "How much is the capital?" The capital structure depends on the material presented and the way it is presented. There are five multiple answers: P1: 13,000 RO, P2: 5000 RO, P3: 7000 RO, P4: 20,000 RO, and P5: 12,000 RO. And, the seventh question is: "How is the capital divided?" P1 said: "7000 in the purchase of goods, dying, and maintenance, and the rest in the purchase of the workplace." P2 said: "5000 in small company maintenance and 8000 in small company purchase." As a complement, P3 said: "9000 RO clothes fabrics, machines, workers cards, small company design. The rest is 10,000 to purchase from a small company." P4 said: "50% women's clothing, 10% for shoes, 10% for bags, 30% for electricity, rent, and the rest employee's salary." P5 said: "3000 company designs, 2000 accessories, 2000 electronics, 1000 company actions from the municipality, 500 company plates, 500 indoor lights, 1000 as a reserve in case of company shortage." There is a positive relationship between corporate control index and company concert measures, which is an important and reasoning factor in explaining the company's performance. Investors will also have a positive perception of commercial companies that maintain high standards of governance, thus reducing potential financing costs. Based on study by Arora and Bodhanwala (2018), the final question is: "How many owners? P1: 1, P2: 1, P3: 2, P4: 2, P5: 1, P6: 2, P7: 1, P8: 1, P9: 1, and P10: 2 –60% of the business was under the control of one manager and 40% was under the control of two partners. In the Sultanate of Oman, there are different projects behind the capital, but there is a brilliant and clear innovation in the management of capital. The Omani people are known for having microfinance enterprises, and the majority of their income comes from these ventures. Furthermore, young people enjoy this profession and are innovative in it.

CONCLUSIONS

This study determines the relationship between effect of capital structure and performance of MFIs in Oman. This research identified capital structure as an independent variable. The data were collected by conducting a number of midwives. This study targeted the owners of microfinance companies, and their answers were found different. The cash structure is critical for boosting store performance and increasing output levels. When the capital is high, for example, this leads to changes in the interior decor to make it more appealing to buyers.

RECOMMENDATIONS

The study found that the capital structure has an important and positive impact on the performance of MFIs. From the results of the study, we recommend the management of capital, whether it is large, medium, or small, the correct management is sufficient to succeed and achieve high performance. The study found that the number of business partners at times increases the efficiency of work and improves it. Hence, we recommend taking advice and development and not staying at the same level. The study found that the performance of microfinance organizations is uneven and similar in continuous improvement. Therefore, this study recommends that MFIs focus and support them continuously because their business is mixed with innovation and development, as well as inventing new things in the market. This study recommends to properly managing capital and developing the field of small projects, to give them great importance and support them.

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