Investment Decision, Capital Structure, Risk Management and Financial Performance of SMEs in Ituri Province, DRC

Ariaka Sabho Timothee (PhD-Student, BU; MBA-CUU) [1]
Isaiah Onsarigo Miencha (PhD, CPA II) [2]
[1] Lecturer and Researcher at Ariwara Higher Institution of Business School, Aru/DRC
[2] S. Lecturer and PhD Coordinator Graduate School Bugema University, Uganda

Abstract. This paper investigated the relationship between investment decision, capital structure, risk management and financial performance of SMEs in Ituri province, DRC. Specifically, the study was guided by the following objectives: to examine the relationship between investment decision and financial performance, relationship between capital structure and financial performance, relationship between investment decision, risk management and financial performance, relationship between capital structure, risk management and financial performance of SMEs in Ituri province, DRC. The study adopted a descriptive cross sectional design. Quantitative approach was employed. The researcher used purposive sampling and simple random sampling techniques to select the respondents. The study population was 3386 SMEs owners and managers with 246 as a sample size. The sample size was calculated using Krejcie and Morgan table (1970) for determining sample size. The findings revealed a weak but significant positive relationship between investment decision and financial performance of SMEs (r = 0.442, P-value = 0.000); between capital structure and financial performance of SMEs (r = 0.321, P-value = 0.000); between investment decision, risk management and financial performance of SMEs (r = 0.401, P-value = 0.000), and a weak but significant positive relationship between capital structure, risk management and financial performance of SMEs (r = 0.419, P-value = 0.000). The study findings further revealed a very weak predictive variables power 27.8% of the variance in financial performance (R-square = 0.278) with investment decision as the most influential predictor (β = 1.237, Sig 0.000) followed by risk management (β = 1.167, Sig 0.40) and lastly the capital structure (β = -.014, Sig 0.971) in the model. Given the weak findings obtained from this study, beyond the independent variables studied, there is a need to investigate other factors determining financial performance in this part of the world. The paper recommends that owners and managers of SMEs in Ituri, DRC should enhance their investment decision, capital structure and risk management, through selecting a profitable investment sector, using mixture of equity and debt finance, diversifying their business portfolio, integrating the market research in the investment process, adopting business planning process practices in their investment planning in order to reduce the effects of potential risks, building capacity of staff and employees on risk management for better financial performance, because these are all very important aspects in determining financial performance.

Key words: Investment decision, Capital structure, Risk management, Financial Performance of SMEs

Introduction

The Democratic Republic of the Congo (DRC) has a high degree of informality of economy, (Wold Bank, 2017). It is difficult to establish the exact number of Small and Medium Scale Enterprises (SMEs) in the country. In addition, the law of DRC remains vague on the definition of SMEs consequently they are operating in informality. For instance, a study carried out in 2006 by Protestant University in DRC found out that the country counts between 2.5 and 3 million SMEs (FEC, 2017). In spite of this informality, Small and Medium Scale Enterprise are the drivers of the DRC economy for they make up close to 80% of the

businesses in the country (African Development Bank, 2013) in terms of the economic development, innovation, wealth creation. The SMEs are spread across all sectors. For example, a study carried out by Mbahweka & Simeti (2014) found out that in Butembo town in North Kivu province/RDC, 204 enterprises or 61.6% of the SMEs were specialized in trade, while another 40 or 12.1% were specialized in the production and sale of products, and another 33 or 10% were concentrated in the furniture manufacturing sector, 25 or 7.6% of SMEs were in the hotel industry and 14 or 4.2% were in the garment industry and finally 12 or 3.6% were in construction.

Major players in this sector include the government which regulates and taxes the SMEs, lenders, microfinance institutions and banks which lend people money that is used as capital to start up these businesses, the customers or consumers who purchase goods or items from them as well the business owners who start up these businesses.

In the DRC, SMEs are regulated under the Office for the Promotion of Congolese Medium and Small Enterprises (OPEC), a technical body of the Ministry of Small and Medium Enterprises (SMEs), whose task is to supervise, encourage the creation of SMEs, improve their efficiency and promote their organization the SMEs in DRC (Mayindu, 2009).

SMEs are the main drivers of DRC's Gross Domestic Product (GDP) growth; they are spread across all sectors and constitute the base in terms of the contribution of various sectors to GDP (African Development Bank, 2013). Besides agriculture, which employs 70% of the population and produces 40% of GDP, the most important sectors are trade (22%) and the mining sector (12%). The manufacturing industry accounts for only 5% of GDP, and construction (6%) (African Development Bank, 2013).

As major challenges of SMEs sector, the Democratic Republic of the Congo through its banking institutions is experiencing so far enormous difficulties to finance the growth of SMEs because of risks faced by these category of businesses (fragility of investment, absence of an appropriate accounting practices, insolvency etc). And yet there is a complete absence of a financial market or security stocks exchange in the DRC (Mbahweka & Simeti, 2014). Other challenges are the lack of technical and financial capacities by the SMEs owners, lack of capacity and skills in the overall SMEs sector, lack of specialized SMEs support institutions, lack of specialized financial institutions and/or financial instruments (Wold Bank, 2017) too much taxation where by the tax pressure represents 600 taxes to be paid, absorbing 51% of annual sales in SMEs (FEC, 2017). This study sought to find out why small businesses in DRC do not perform well and do not last for a long period especially in Ituri province. Hence, the study investigated the relationship between investment decision, capital structure, risk management and financial of SMEs in Ituri Province.

Literature Review

Investment decision is concerned with the decisions about the allocation of funds in terms of sources of financing which come from inside and outside the company as well as the use of funds for the short-term and long-term purposes (Efini, 2017). Investment decisions includes investment in fixed assets known as capital budgeting and investment in current assets is also a part of investment decisions known as working capital decision (Scholleova, Fotr, & Svecova, 2010). It is known that, a number of researches have been done to establish the relationship between investment decision and financial performance. In the past, researchers have documented a significant positive relationship between investment decisions and a firm's productivity through its financial performance, Cohen & Klepper as cited in (Karanja, 2012). In addition, it was established that, these types of strategies are reflected through what is called investments within the firm, and these investments add value to the firm, and increase the shareholders wealth (Penman, 2010). It is not known whether investment decision and capital structure mediated by risk management contribute or not to

financial performance of SMEs. It should be known that investment has significant implications for the financial performance of a business. In addition, it can be assumed that better investments decisions in capital expenditure result in to improved efficient productivity, growth in sales turnover and profit performance of firms and thus exert a positive contribution in their financial performance, Ericson & Pakes as cited in (Karanja, 2012). In essence good investment decisions result not only in better financial performance progress but also do improves access to external resources for instance through securities for investments in general and for further investments in research and development in particular, this aids in ensuring that a firm has adequate liquidity levels. However, a wrong investment decision could lead to a company making losses and therefore shutting down (Karanja, 2012). Investment decision was measured basing on the following attributes: base of investment, sector of investment, duration of investment and motive for investment (Gveroski & Jankuloska, 2017).

Capital structure in financial terms means the way a firm finances their assets through the combination of equity, debt, or hybrid securities, Saad as cited in (Nassar, 2016). Capital structure was defined firstly by Modigliani and Miller as the mix between debt and equity that the company uses in its operation. It is known that equity capital and debt capital has a significant effect on financial performance of the SME (Ruri & Omangwa, 2018). However, it is not known whether investment decision and capital structure mediated by risk management contribute or not to financial performance of SMEs. It still also remaining mystery how organizations select the amount of equity and debt in their capital structure mix (Mireku, Mensah, & Ogoe, 2014). It should be known that the capital structure choice is an important decision for a firm. It is important not only from a return maximization point of view, but also this decision has a great impact on a firm's ability to successfully operate in a competitive environment. The ability of companies to carry out their stakeholders' needs is tightly related to capital structure (Arulvel & Ajanthan, 2013). Capital structure was measured basing on attributes like; Debt finance and equity finance (Ruri & Omangwa, 2018).

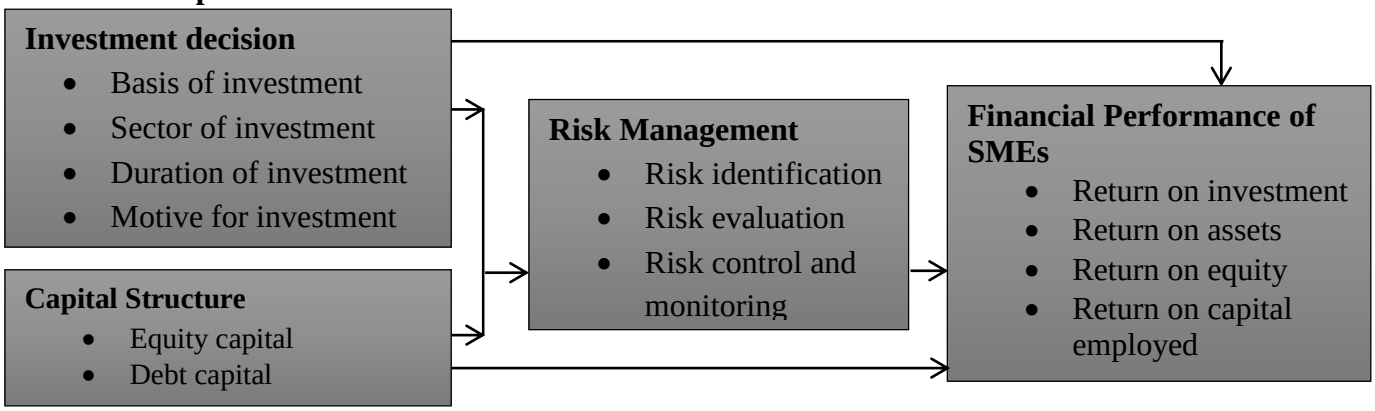
Risk management is an approach of managing a company (Monday, 2017). Risk management is a continuous monitored integrated formal process for defining objectives, identifying sources of uncertainty, analyzing uncertainties and formulating managerial resources to produce an acceptable balance between risk and opportunities Halman & Weiden as cited in (Bandula, 2012). It is known that, the successful risk management (RM) practices enable firms to enhance their values and manage risk in an effective way (Lechner & Gatzert 2018). Risk management increases a firm's profitability by reducing different operational and marginal costs as well as reduces the uncertainty of stock market returns (Eckles et al. 2014). It is not known that, whether investment decision and capital structure mediated by risk management contribute or not to financial performance of SMEs. It should be known that, risk management has considerable implications for competitiveness and business; it enables, for instance, the development of a strategy to reduce potential losses while exploiting win-downs for opportunity, Radner and Shepp as cited in (Watt, 2007). Risk management is also important in an organization because without it, a firm cannot possibly define its objectives for the future. If a company defines objectives without taking the risks into consideration, chances are that they will lose direction once any of these risks hit home (Cia, 2013). The risk management was measured using attributes like Risk identification, Risk evaluation and Risk control and monitoring (Bandula, 2012).

Financial performance is defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in

aggregation (Karanja, 2012). It is known that, the financial performance is the one way of addressing the impact of investment decisions made by managers in a firm (Karanja, 2012). It is established also that; the efficiency of an optimal capital structure is addressed through the financial performance. In addition, the financial performance is considered as one the ultimate goals or objectives of any organization, Makkar & Singh as cited in (Goweah, 2019). This may be exhibited by changes in objective measures like profitability, liquidity, efficiency, and earnings per share (Kinyua, 2016). However, It is not known that, whether investment decision and capital structure mediated by risk management contribute or not to financial performance of SMEs. It is not also known that, whether SMEs owners have advanced skills and competences to assess their business financial performance or they have to refer to financial experts or analysts for this purpose. It should be known that, business financial performance is important in giving an indication of how wealthier the shareholder has become as a result of the investment over a specific time. Financial performance was measured using attributes performance including return on equity (ROE), and return on assets (ROA), Return on Capital Employed (ROCE) and Return on Investment (ROI) (Kitonga, 2008).

The literature review discovers that different studies have been done to establish whether there exist or not a relationship between investment decision and financial performance, capital structure and financial performance as well risk management and financial performance. However, there still exists a gap in literature as none of the studies had been able to incorporate variables like investment decisions, capital structure and risk management in a single study to determine the financial performance of SMEs both locally and outside the country. Furthermore, the studies have yielded mixed results due to the context, sample size, sampling method, number of years covered, choice of elements or components of investment decision, capital structure, risk management, data sources and statistical methodology. Despite their findings, the results cannot be generalized because of the context and data used is different from the one in the current study. This study focused on SMEs in Ituri province in DRC using the accounting based measures of financial performance and primary data collected from the field cause in DRC there is not security exchange market (Mbahweka & Simeti, 2014). From the foregoing discussions, there was a need to carry out further study to bridge the gaps identified in previous studies. Therefore, the principal motivation behind the present study was to fill the gap in literature by examining the relationship between investment decisions, capital structure, risk management and financial performance of SMEs in Ituri province, DRC.

Conceptual Framework



Source: Adopted and modified from models of (Gveroski & Jankuloska, 2017; Kitonga, 2008; Bandula, 2012; Ruri & Omangwa, 2018)

The above conceptualization model showed the relationship between study variables and their attributes including: Investment decisions, Capital structure, Risk management and Financial Performance of SMEs in Ituri province/DRC.

Problem Statement

Globally, Small and medium enterprises (SMEs) play an important role in the development of a nation's economy (Mohammed & Ali, 2015). Despite the role played by SMEs in economic development, they still continue to suffer negative trails in performance and entrepreneurial success. In 2016, in Denmark, about 40.99% of the SMEs were in fear of collapsing/dying (Farrington & Matchaba, 2011).

In Africa, the situation is not different either, in South Africa 70% to 80% of the SMEs fail within the first five years of operation (Monday, 2017). In Kenya, 400,000 SMEs are dying annually. A total of 2.2 million SMEs were closed in the last five years in Kenya (Monday, 2017).

In DRC, the situation is the same too. According to World Bank report, nearly half of Small businesses have been on the market for less than five years (Wold Bank, 2017). For instance, a study carried out by Kaghoma (2014) found out that on average, the average life of an SME in the Ouest Southern province named (Bas-Congo) was 3 years. According to GUCE (2017) report, in 2016 and 2017, there was a decrease of 12.7% and 11.7% in terms of the legal and the physical entity creation respectively. At Bunia Town in Ituri province, the provincial Division of SMEs annual report 2017 showed that 13% of SMEs died in the course of the year (PDSMEs, 2017). This shows that SMEs have deteriorated in terms of business growth in DRC. Businesses continue to appear successful and when they are actually not. The common constraints to growth hinge on too much taxation, poor culture of investment decision making and risk management, poor competitiveness problem related to the lack of technical and financial capacities of owners, limited access to finance and the cost of finance of which the D`RC's SMEs are stumped (Litoya, 2017). Nevertheless, growth rate of existing SMEs is sluggish, and SMEs in the DRC need to improve performance as an important engine of growth and job opportunities for young skilled workers (Wold Bank, 2017). This study therefore, sought to investigate this problem by answering the general question: What is the relationship between investment decision, capital structure, risk management and SMEs financial performance in Ituri province/DRC. Specifically, it was matter of addressing the following questions: what is the relationship between investment decision and financial performance of SMEs in Ituri province, DRC? what is the relationship between capital structure and financial performance of SMEs in Ituri province, DRC? what is the relationship between investment decision, risk management and financial performance of SMEs in Ituri province, DRC? What is the relationship between capital structure, risk management and financial performance of SMEs in Ituri province, DRC? The purpose of the study was to examine relationship between investment decision, capital structure, risk management and financial Performance of SMEs in Ituri province, DRC.

Research Methodology

The researcher used a descriptive cross sectional design. This enabled the researcher to collect high volume of data from different organizations. The study employed quantitative research approach such as statistical or mathematical approaches were used to analyse data collected. This helped the researcher to understand and describe respondents' attitudes, preferences and concerns in regard to how investment decision, capital structure and risk management impact the financial performance of SMEs of Ituri province in DRC. The population of the study included SME owners and in some cases where the owners were not reached, the managers were used. According to the annual report (2018) of provincial

division of SMEs services in Ituri, they were 3386 SMEs operating in Bunia town. Therefore, the total population of the study was 3386 SMEs. The sample size was determined using Krejcie & Morgan table (1970) for determining sample size as this gives a practical ratio according to the population size. It saves time and is convenient. According to the formula, 246 respondents (owners or managers of SMEs) were used as a sample size of the entire population (3386).

Closed questionnaires were used to collect data from the two categories of respondents. The questionnaire was a researcher administrated, and used a 5- point Likert scale format ranging from 1{strongly disagree}, 2{disagree}, 3{Not sure}, 4{agree}, and 5 {strongly agree} in order to provide consistent responses. In order to ensure the reliability of reaearch, the Cronbach's Alpha reliability coefficient for Likert-Type Scales test was performed. According to Amin (2005), as long as the coefficient Alpha is 0.7 and above, then it is reliable. For the current paper all constructs passed. The data was collected from the field, coded, edited and analyzed using descriptive analysis options of (SPSS) version (20.0). Descriptive statistics such as frequency and percentage were used to present the bio data of the respondents. The data was then presented using Pearson's correlation, while multiple regression analysis was used to test the potential predictors of the dependent variables.

Research Results

This section presents and discusses the research results. Out of the 246 targeted respondents 226 responded through filling of a questionnaire which was administered by the researcher through interacting method as well as through the drop and pick-later method for some knowledgeable respondents. The response represented 91.8% response rate. This response was considered sufficient for data analysis and attaining the desired results to answer the intended study objectives (Mugenda & Mugenda, 2003).

Relationship between Study Variables

Table 1: Correlation matrixes

Correlations	Financial Performance	Sig
Investment decision	.442	0.000
Capital structure	.321	0.000
Investment decision, risk management	.401	0.000
Capital structure, risk management	.419	0.000

Note: Results significant at 5% levels of significance
Source: Primary data computed, 2019

Multiple correlation analysis was performed to examine the relationships and the degree of associations between variables as detailed in Table 1 above.

The results in Table 1 above illustrate a weak but significant (positive) linear relationship between investment decision and financial performance of SMEs in Ituri province in DRC (r = 0.442, P-value = 0.000). This implies that any effort made by the owners or managers to improve investment decision need to consider the weak but significant positive relationship between investment decision and financial performance. However, it was found a weak but significant (positive) linear relationship between capital structure and financial performance of SMEs in Ituri province, DRC (r = 0.321, P-value = 0.000). Therefore, any effort made by the owners or managers to improve capital structure should consider the weak but significant positive relationship between capital structure and SMEs financial performance. The results indicated moreover a weak but significant (positive) linear relationship between investment decision, risk management and financial performance (R =

0.401, P value=0.000). Thus, any effort made by the SMEs owners or managers to enhance the two variables (investment decision and risk management) will improve in a weak but significant positive manner the financial performance of SMEs. Lastly, the results revealed a weak but significant (positive) linear relationship between capital structure, risk management and financial performance (R=0.419, P value=0.000). Thus, any step taken by the SMEs owners or managers to enhance the two variables in certain manner improves the financial performance of the company in a weak but significant way.

Regression Analysis for Investment Decision, Capital Structure, Risk Management on SMEs Financial Performance in Ituri, DRC

Table 2: Regression model for investment decision, capital structure, risk management on SMEs financial performance

Coefficients						
Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**
		B	**Std. Error**	**Beta**		
1	(Constant)	-2.225	1.666		-1.335	.183
	Investment Decision	1.697	.464	1.237	3.658	.000
	Capital structure	-.014	.393	-.014	.037	.971
	Risk management	.983	.477	1.167	2.062	.040
R = .528[a], R- Square =.278, Adjusted R- square = .262, F= 16.976, Sig = .000[a]						

Note: a. Dependent Variable: Financial performance of SMEs; b. Predictors: (Constant), Investment Decision, Capital structure and Risk Management.

Source: Primary data, 2019

Results in Table 2 above showed that from the model summary table, the value R represents the correlation value which shows the strength between the independent variables and the dependent variable, from this study there was a moderate positive linear relationship between the independent variables and the independent variable since R was 52.8 %.

The coefficient of determination in this study represented by R squared from the model summary table and it explains how well the changes in the dependent variable (financial performance) can be explained by the change in the independent variables (investment decision, capital structure and risk management); in this study the coefficient of determination is 27.8%. In other words, this implies that the combined predictor variables explained 27.8% of the variance in the financial performance of SMEs in Ituri province, DRC (R- squared = 0.278) while 72.2 remains unexplained. The R-squared of 0.278 shows a very weak predictor power of the model which is lower than the recommended of 60% and above to be relied for a model.

However, the model results as indicated in the above table showed a significant contribution of (Investment Decision and risk management) and an insignificant contribution of (capital structure) on the financial performance of SMEs. The most influential predictor of financial performance was investment decision (β=1.237, P Value= 0.000) followed by risk management (β = 1.167, P Value =0.40) and lastly the capital structure (β = -.014, P Value =0.971). The results revealed that attributes studied of investment decision are statistically significant at 95% confidence interval (P Values = 0.000 < 0.05) followed by the risk management (P Values =0.040<0.05). However, attributes of capital structure studied are not statistically significant at 95% confidence interval (P Value = 0.971 > 0.05). This implies that a unit increase in investment decision leads to a 1.237 increase in the financial performance of SMEs, while a unit increase in risk management practices contributes to a 1.167 increase

in financial performance and a unit increase in capital structure leads to -0.014 decrease in the financial performance of SMEs in Ituri, DRC.

Conclusion and Recommendations

The study sought to investigate the relationship between investment decision, capital structure, risk management and financial performance of SMEs in Ituri province, DRC. The findings revealed a weak but still significant positive relationship between; investment decision and financial performance of SMEs in Ituri province (r = 0.442, P-values = 0.000); between capital structure and financial performance of SMEs in Ituri province (r = 0.321), P-value = 0.000); between investment decision, risk management and financial performance of SMEs in Ituri province (R = 0.401, P-value = 0.000); between capital structure, risk management and financial performance of SMEs in Ituri (r = 0.419), P value = 0.000). The study findings further revealed that the most influential predictor of financial performance was investment decision (β = 1.237, P Value= 0.000) followed by risk management (β = 1.167, P Value =0.40) and lastly the capital structure (β = -.014, P Value = 0.971).

In view of the forgoing, given the statistics of the current study, beyond the independent variables studied, there is a need to investigate other factors determining financial performance in this part of the world. Therefore, the study concluded that investment decision, capital structure and risk management are not necessarily the significant areas in the SMEs sector in Ituri province, DRC, and as such the owners and managers of SMEs in Ituri province should not only focus on improving investment decision couple with a mixture of equity finance and debt finance in an optimal manner and ensure a good risk management practice is put into place in the company from time to time. But, beyond these areas they should also think about other key areas of business sector such as organizational culture, leadership style, organizational governance, cash management, and use of new technologies, appropriated accounting practices, computerized accounting system and appropriated financial management practices etc., which could be considered to have a strong positive and significant effects on financial performance and help SMEs to remain competitive in the sector in Ituri province, DRC.

The results obtained from this research cannot be generalized to the wider population of study in DRC because the study only focused on owners and managers of SMEs of Ituri, it does not consider other SMEs of other provinces of the country. In addition, this study may not be generalized to other SMEs in other developed countries or other economies due to the context and methods used. Furthermore, the study findings analysis did not differentiate managers' views and opinions from the owners' which could have given different implications on SMEs financial performance. And lastly, the study did not consider other SMEs out of Bunia Town and other respondents such as employees, as it concentrated only on the owners and managers of surveyed SMES in Ituri province, DRC.

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