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DETERMINANTS OF CAPITAL STRUCTURE: EVIDENCE FROM TANZANIA'S LISTED NON FINANCIAL COMPANIES

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ABSTRACT

The current paper examines the potential determinants of the capital structure decisions the Tanzanian context. The study explains how the non-financial listed companies in Tanzania choose and adjust their strategic financing mix. The static trade-off theory, pecking order theory or information asymmetry theory, and agency cost theory guided the study. The study focused on all 8 non-financial companies listed in Dar es Salaam Stock Exchange (DSE) as at 2011. The financial statements and websites of the 8 companies were extracted to obtain the relevant information. The multiple regressions model was used to test the theoretical relationship between the financial leverage and characteristics of the company. The MINITAB 15 English Computer Software was used to run the regression model. The study reveals that the profitability and assets tangibility are the two key determinants of the capital structure decisions in Tanzania while company size and liquidity are suggestive determinants. The study recommends that, Tanzanian companies should adhere to these determinants in their decisions making on the capital structure.

KEYWORDS

Capital structure, Tanzania, stock exchange.

INTRODUCTION

One of the challenges facing the Tanzanian investors is how to choose and adjust their strategic financing mix to form an optimal capital structure. A company's capital structure refers to the mix of its financial liabilities. As financial capital is an uncertain but critical resource for all companies, suppliers of finance are able to exert control over companies. Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the company. Each of these is associated with different levels of risk, benefits, and control. While debt holders exert lower control, they earn a fixed rate of returns and are protected by contractual obligations with respect to their investment. Equity holders are the residual claimants, bearing most of the risk, and, correspondingly, have greater control over decisions.

Questions related to the choice of financing (debt versus equity) have increasingly gained importance in company finance research. Traditionally examined in the discipline of finance, these issues have gained relevance in the past few years, with researchers examining linkages to strategy and strategic outcomes. The basic question was formulated as, what are the factors guide companies to choose either debt and or equity financing?

The relationship between the proportion of debt usage and company's characteristics namely size of the company, profitability, growth rate, assets tangibility, liquidity and dividend payout has been the subject of considerable fact, in empirical research.

Previous studies have focused on testing those explanatory variables if they relate to the financial leverage of the company. Numerous of these studies have been done in the developed countries. For example, Rajan and Zingales (1995) use data from the G-7 countries, Bevan and Danbolt (2000 and 2002) utilized data from the UK.

The DSE is the solely secondary capital market in Tanzania incorporated in 1996 as a company limited by guarantee without a share capital. It became operational in April 1998. The securities currently being traded are Ordinary Shares of 15 listed companies, 5 company bonds and 8 Government of Tanzania bonds as per 10, October 2010. The DSE membership consists of Licensed Dealing Members (LDMs) and Associate Members. Both the Capital Markets and Securities Authority (CMSA) and DSE monitor the market trading activities to detect possible market malpractices such as false trading, market manipulation, insider dealing, short selling, and others.

The study was based on attempt to determine the determinants of the capital structure decisions in the Tanzanian non-financial companies listed at the Dar es Salaam Stock Exchange (DSE).

According to Rajan and Zingales (1995), and Harris and Raviv (1992), among others, further substantiation of capital structure hypotheses is needed to increase the robustness of their predictions. This research may be pursued through the empirical testing in different environmental contexts of country, time and industry. Such investigations may be helpful for a better understanding of the implications of environmental and behavioral factors on capital structure decisions, and thus contributing for broadening the explanatory and predictive power of the theory.

$H0_1$: There is no significant relationship between financial leverage and company size
$H1_1$: There is a significant relationship between financial leverage and company size
$H0_2$: There is no significant relationship between financial leverage and profitability
$H1_2$: There is a significant relationship between financial leverage and profitability
$H0_3$: There is no significant relationship between financial leverage and growth rate
$H1_3$: There is a significant relationship between financial leverage and growth rate
$H0_4$: There is no significant relationship between financial leverage and assets tangibility
$H1_4$: There is a significant relationship between financial leverage and assets tangibility.
$H0_5$: There is no significant relationship between financial leverage and liquidity.
$H1_5$: There is a significant relationship between financial leverage and liquidity.
$H0_6$: There is no significant relationship between financial leverage and dividend payout.
$H1_6$: There is a significant relationship between financial leverage and dividend payout.

Data were analyzed in regression model. The MINITAB 15 English computer software used to test the set of hypotheses. Before running the regression, investigation into the multicollinearity problems was carried out. The correlations among the independent variables were examined to find out the multicollinearity problem. First, the Pearson correlations were determined, and then diagnosis was done on the relationship of individual independent variables to all other independent variables. The examination of correlation among the explanatory variables found no multicollinearity problem (Table 4.2 & 4.3).

FACTORS THAT INFLUENCE CAPITAL STRUCTURE DECISIONS AMONG NON-FINANCIAL LISTED COMPANIES AT DSE

Before determining the factors that influence the capital structure decisions the data descriptive statistics were computed to profile the characteristics of the sampled companies. The interested statistical measures were means, median, and range (minimum and maximum value) of the factors measured (Table 4.1.1).

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TABLE 4.1.1: DESCRIPTIVE STATISTICS FOR DEPENDENT VARIABLE AND INDEPENDENT VARIABLES

Variable	N	Mean	SE Mean	StDev	Minimum	Median	Maximum
Financial leverage	8	0.5505	0.0944	0.2670	0.2982	0.4458	0.8954
Company size	8	11.236	0.2580	0.7290	10.0270	11.1430	12.2150
Profitability	8	0.2970	0.0783	0.2215	0.0374	0.3568	0.5359
Growth rate	8	0.2499	0.0472	0.1334	0.0508	0.2392	0.4432
Assets tangibility	8	0.3550	0.1060	0.3000	0.0170	0.4130	0.7290
Liquidity	8	0.1152	0.0270	0.0760	0.0288	0.1104	0.2649
Dividend payout	8	0.4310	0.0974	0.2756	0.0471	0.3447	0.8661

Source: Field data (2011)

The table above shows descriptive statistics for the dependent variable and independent variables from among the non-financial companies listed at DSE. The descriptive statistics show how the companies listed at the DSE characterized or vary in term of size, profitability, growth rate, assets tangibility, liquidity and dividend payout. The descriptive statistics shows that companies employ at least 50% of debt in their capital structure components and there are high variations of independent variables among the companies. After data descriptive statistics computation, the pair-wise Pearson correlation of the independent variables was run to diagnose the multicollinearity problem.

TABLE 4.1.2: PAIR-WISE PEARSON CORRELATION MATRIX OF EXPLANATORY VARIABLES

Variables	X_1	X_2	X_3	X_4	X_5	X_6
Company size (X_1)	1.000					
Profitability (X_2)	-0.623	1.000				
Growth rate (X_3)	0.151	-0.343	1.000			
Assets tangibility (X_4)	-0.418	0.422	-0.079	1.000		
Liquidity (X_5)	0.421	-0.604	-0.363	-0.792	1.000	
Dividend payout (X_6)	-0.684	0.638	-0.217	0.337	-0.465	1.000

Source: Field data (2011)

The table above shows the correlation of the paired variables among the sampled companies. From this table, figures show that there is no strong correlation, more or equal to 0.8 among the independent variables. This implies that there is no multicollinearity problem among the independent variables.

The pair-wise correlation approach of diagnosing the multicollinearity problem does not take into account the relationship of each of independent variable on all other independent variables. Therefore, regression model of each independent variable on all other independent variables was run to assess the multicollinearity problem more precisely (Appendix C).

TABLE.4.1.3: RESULTS OF THE MODELS USED TO ASSESS THE MULTICOLLINEARITY

Problem	Model R^2	Adjusted R^2	S.E
Model (1.1)	53.6%	0.0 %	0.929250
Model (1.2)	87.9%	57.6 %	0.144325
Model (1.3)	72.3%	2.9 %	0.131439
Model (1.4)	92.2%	72.7%	0.156681
Model (1.5)	90.9%	68.1%	0.043177
Model (1.6)	78.2%	23.7%	0.240796

Source: Field data (2011)

The table above describes the correlation of each independent variable and all the other independent variables. The value of R^2 nearest to one or equal to one indicates the multicollinearity problems, Lewis-Back (1993). The table shows that figures are not nearest to or equal to one, therefore, there is no multicollinearity problem among the independent variables.

After clearing up the multicollinearity problem, the stepwise regression was run and found that the most effective factors, which influence the capital structure decisions among non-financial listed companies in Tanzania, are profitability and assets tangibility. The liquidity and company size variables are the suggestive determinants. The dividend payout and growth rate were left to the bottom of the best alternative factors implying that are less effective determinants (Table.4.1.4).

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TABLE 4.1.4 FACTORS THAT INFLUENCE THE CAPITAL STRUCTURE DECISIONS AMONG TANZANIAN NON- FINANCIAL COMPANIES LISTED AT DSE

Alpha-to-Enter: 0.05 Alpha-to-Removes: 0.05

Response is financial leverage on 6 predictors, with N = 8

Step	1
Constant	0.8902
Profitability	-1.14
T-Value	-7.38
P-Value	0.000
S.E	0.0909
R^2	90.07
R^2 (adj)	88.42
Mallows Cp	3.1

Best alternatives:	
Factor	**assets tangibility**
T-Value	-5.19
P-Value	0.002
Factor	**liquidity**
T-Value	2.35
P-Value	0.057
Factor	**company size**
T-Value	2.26
P-Value	0.065
Factor	**dividend payout**
T-Value	-1.48
P-Value	0.188
Factor	**growth rate**
T-Value	0.51
P-Value	0.627

Source: Field data (2011)

The table above shows results of the factors that influence the capital structure decision among the Tanzanian non-financial listed companies. The stepwise regression was run at 0.05 level of significant.

HOW NON-FINANCIAL LISTED COMPANIES IN TANZANIA CHOOSE AND ADJUST THEIR STRATEGIC FINANCING MIX

The factors described by the stepwise regression above were then plotted against the financial leverage. The regression lines (the lines of best fit) were plotted to show graphically how non-financial listed companies in Tanzania choose and adjusts their strategic financing mix. The regression lines portray the extent on how factors influence the capital structure decisions in the Tanzanian non-financial listed companies in Tanzania. The regression lines describe how the factors lead companies to choose and adjust their strategic financing mix. The companies choose and adjust their strategic financing mix by considering the extent of influence of the prescribed factors on the financial leverage

FIGURE 4.2.1: THE REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND COMPANY SIZE

Source: Field data (2011)

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The graph above shows the relationship between financial leverage and company size. The line is determined by 46%. The company size is defined as the natural logarithm values of the total assets of the each of the eight samples companies. The financial leverage defined as the ratio of total debts to total assets of each of the eight sampled companies. The companies choose and adjust their debt levels positively to their companies' size.

The regression line between financial leverage and profitability was plotted. The regression line is fitted or determined at 90.1%. This factor is negatively related to the financial leverage. Therefore, the companies choose and adjust debt level in their capital structure negatively to the profitability level of their companies, thus the more profits in the company the less debt ratio in its capital structure and it is vice versa (Figure 4.2. 2)

FIGURE 4.2.2: THE REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND PROFITABILITY
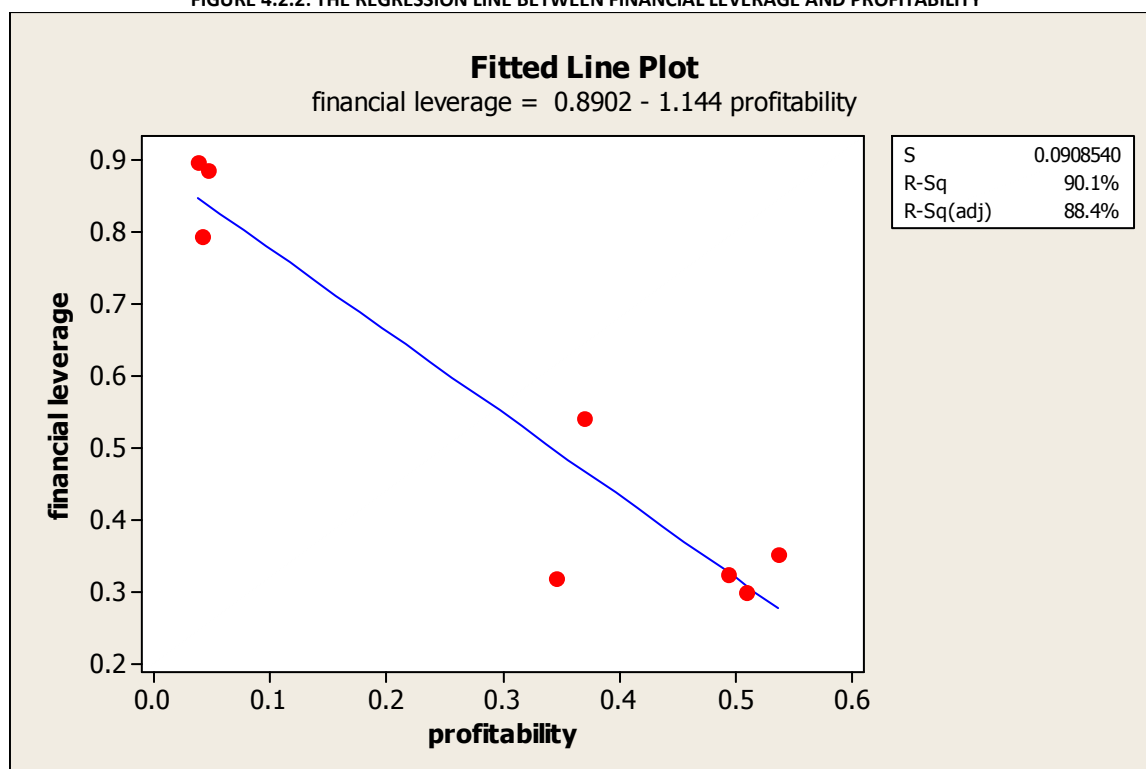
Source: Field data (2011)

The graph above describes the relationship between financial leverage and profitability. The profitability is defined as the ratio of earning before interest and tax (EBIT) to the total assets of each of the sampled companies. The graph portrays that there is a strong relationship between profitability and financial leverage.

The regression line between financial leverage and growth rate was plotted. The growth rate factor poorly relates positively with financial leverage. This relationship is determined at 4.2% (Figure 4.2.3). From this fact, the growth rate is entirely not a determinant of the capital structure decision in Tanzanian non-financial companies listed at DSE. This also, evidenced by the stepwise regression, the growth rate is the least determinant (Figure 4. 4)

FIGURE 4.2.3: THE REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND GROWTH RATE

Source: Field data (2011)

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This graph above shows the relationship between financial leverage and the growth rate. The growth rate is defined as the percentage change of the total assets of the sampled companies. The graph portrays that there is no strong evidence to support the relationship between financial leverage and growth rate.

The financial leverage and assets tangibility was graphed together, the financial leverage as the dependent variable. The results show that the assets tangibility is negatively related to the financial leverage. Companies choose and adjust their debt level negatively to assets tangibility level. The company with higher value of fixed assets tends to use fewer debts in their capital structure and it is vice versa (Figure 4. 2.4).

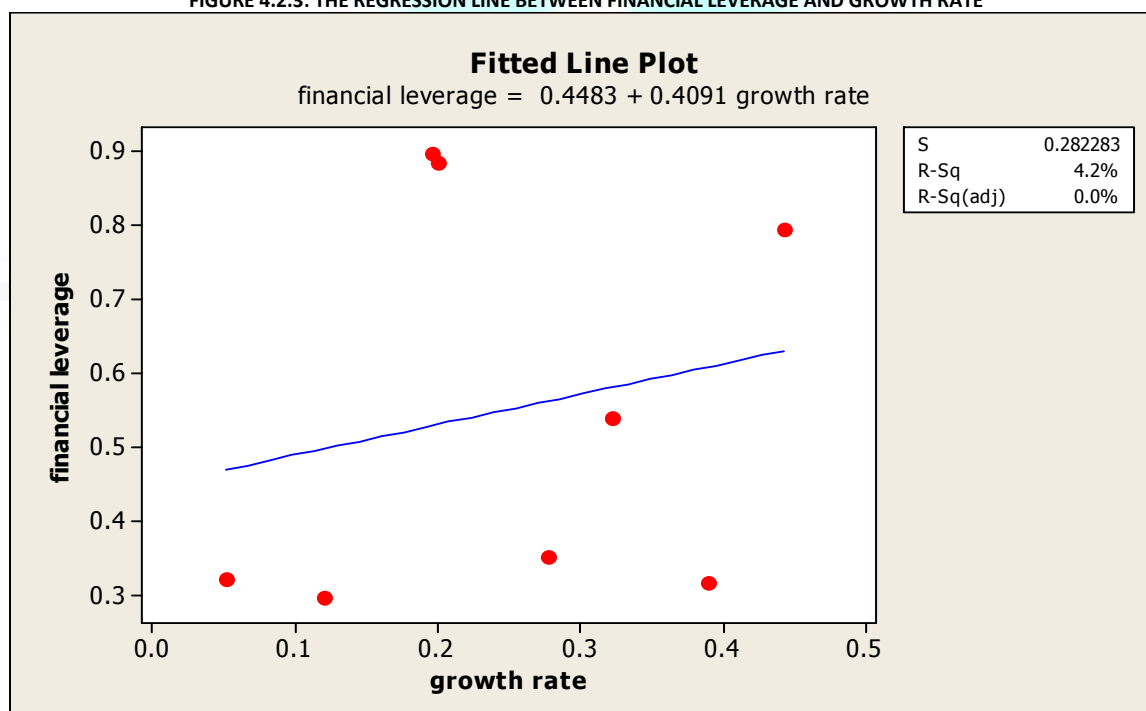**FIGURE 4.2.4: REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND ASSETS TANGIBILITY**

Source: Field data (2011)

This graph shows the relationship between the financial leverage and assets tangibility. Assets tangibility is defined as the ratio of tangible assets to the total assets of each of the sampled companies. The line of best fit fits at 81.8%. This implies that there is a strong relationship between financial leverage and assets tangibility.

In the stepwise regression results, the liquidity is the third best alternative factor. The regression line of best fit is determined at 47.8%. The slope of this line is positive, with a positive constant. The positive constant confirms the reality that in practice the financial leverage does not be zero. The liquidity is a suggestive determinant. The liquidity tends to vary positively with the debt ratio; therefore, companies choose and adjust their debt level positively to their liquidity ratios (Figure 4.2.5).

FIGURE 4.2.5: REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND LIQUIDITY
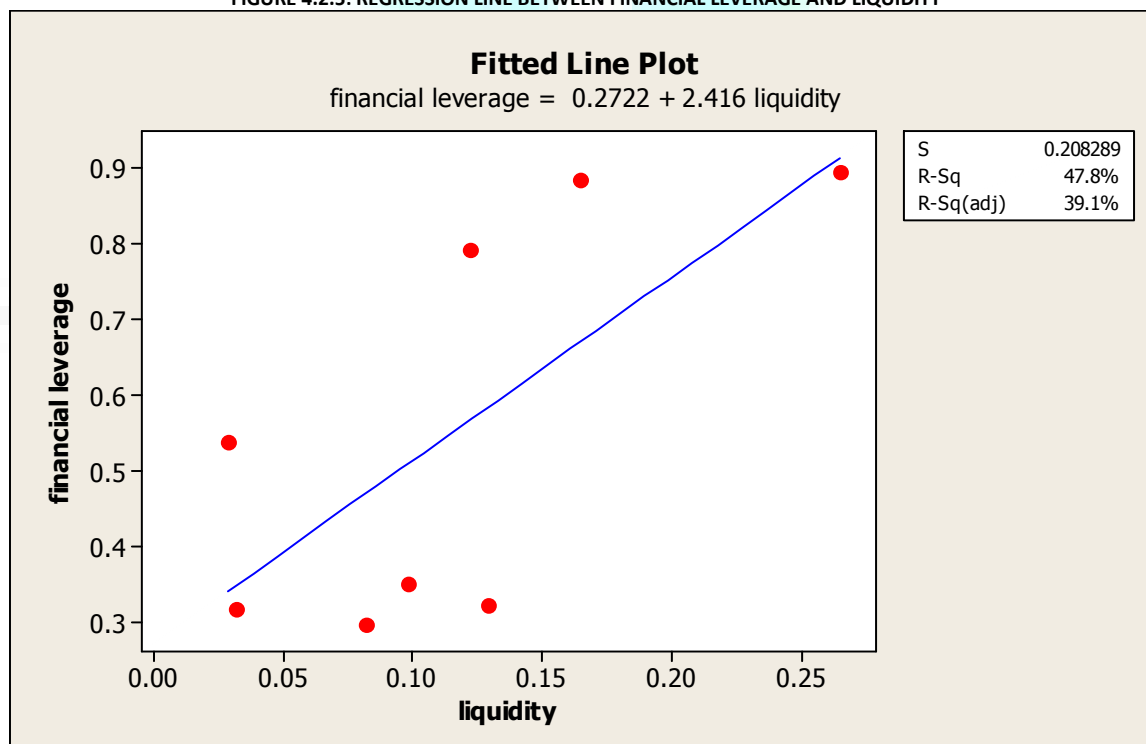
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The graph above shows the relationship between financial leverage and liquidity. The liquidity is defined as the ratio of cash and total assets of each of the sampled companies.

The regression line between financial leverage and dividend payout was plotted. The regression line portrays that the dividend payout is poorly positive related with financial leverage that no strong evidence to support this relationship (Figure 4.2.6). In the stepwise regression, the dividend payout is ranked to the fifth position of the best alternatives factors or determinants (Table 4.1.4).
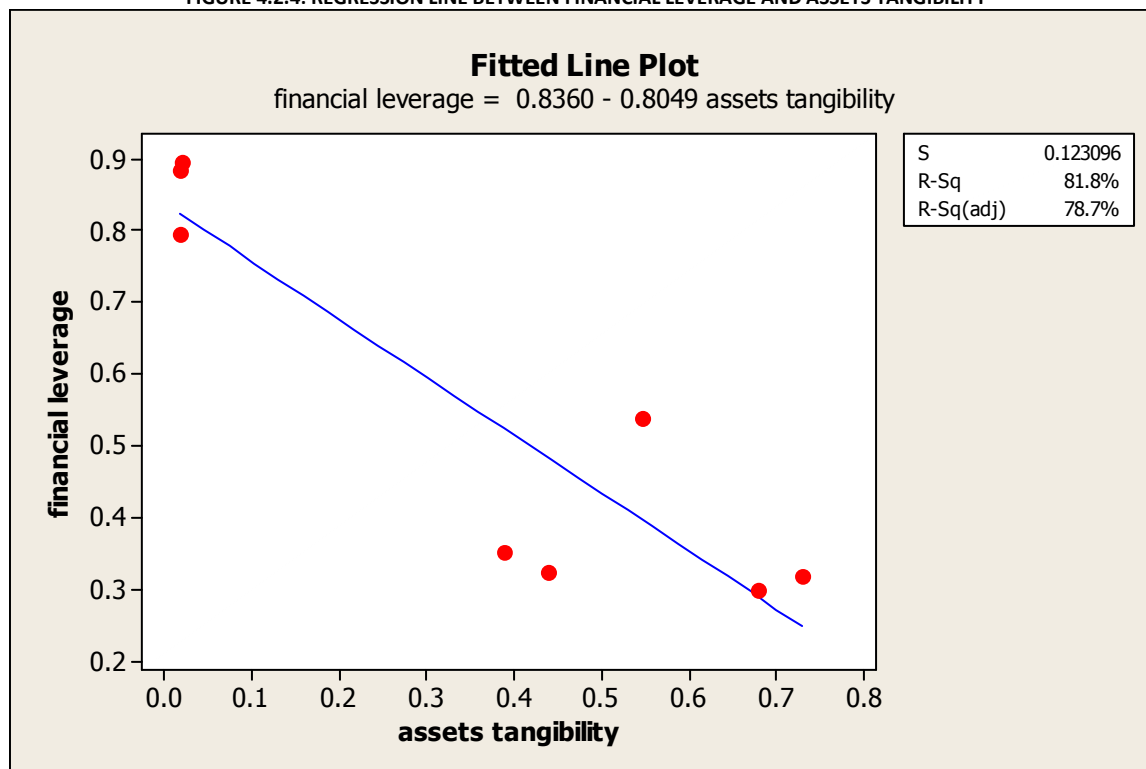
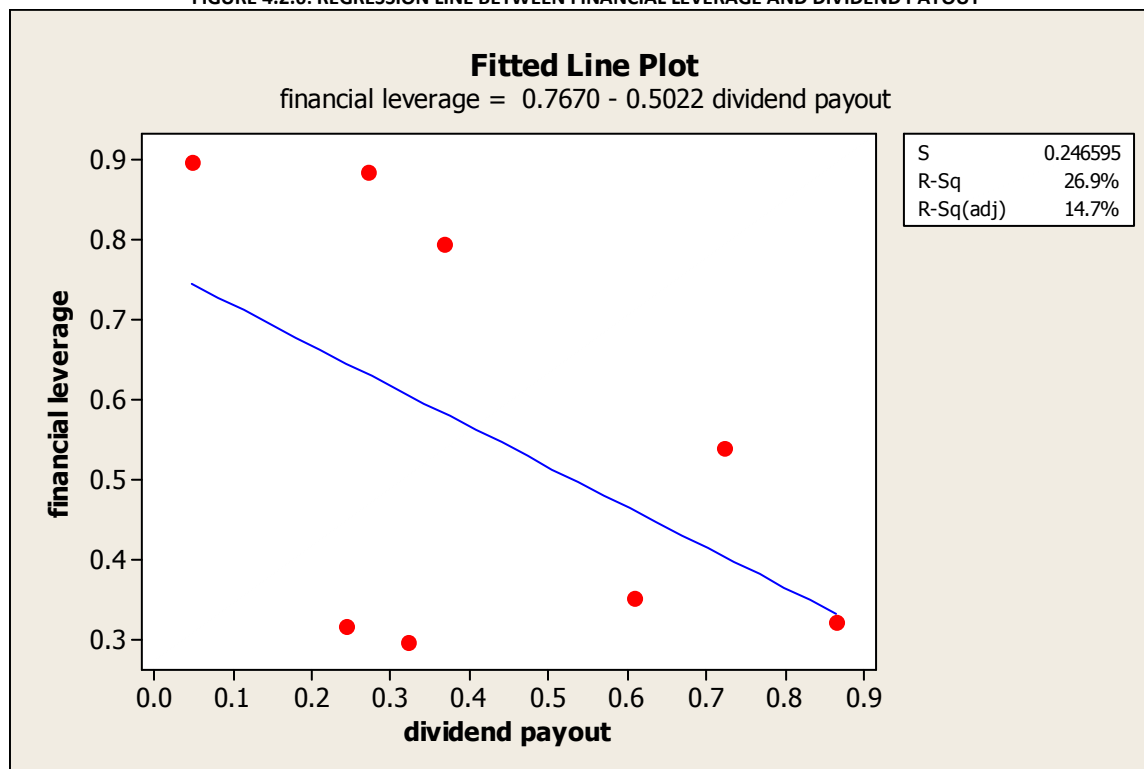**FIGURE 4.2.6: REGRESSION LINE BETWEEN FINANCIAL LEVERAGE AND DIVIDEND PAYOUT**

Source: Field data (2011)

This graph shows the relationship between the financial leverage and dividend payout. The dividend payout is defined as the ratio of dividends available to be distributing to the shareholders to net income of each of the sampled companies. The line of best fit is determined at 26.9%. Implying that there is a poor relationship between financial leverage and dividend payout.

TESTS OF HYPOTHESES

The six set of paired hypotheses were tested statistically at 5% and 10% levels of significant. The Company size has a positive coefficient value of 0.2483 (Figure 4.2.1), the t-value of 2.26 and the p-value of 0.065 (Table 4.4), found to be statistically significant at 10% level and insignificant at 5% level. The p- value is greater than 0.05, this implies that there is no strong evidence to reject the null hypothesis at this level of significant, therefore the null hypothesis of the first set of the hypotheses is accepted . The variable was tested at 10% level of significant and found to be statistically significant, since the p-value is less than 0.10. Therefore, the null hypothesis is rejected at this level of significant.

The profitability variable has a very high t-value of -7.38 and p-value of 0.000. The coefficient is -1.144 and R^2 of 90.1%. This variable was tested and found to be significant at 1% since the p-value is less than 0.01. The null hypothesis of the second set of the hypotheses is rejected at more than 99% confidence level.

The third set of the hypotheses were tested with the growth rate variable. The growth rate has a positive coefficient value of 0.4091 with R^2 of 4.2 %, the t-value of 0.51 is very small and the p-value of 0.627 is greater than significant level of 0.05. This p-value is strong evidence enough to support the null hypothesis of the third set of the hypotheses. Then the variable was tested at 10% level of significant and found to be statistically insignificant, since the p-value is greater than 0.10, therefore the null hypothesis also is accepted at this level of significant.

Assets tangibility, with coefficient of -0.8049, R^2 of 81.8% (Figure 4.2.4), it has the second highest t-value of -5.19 and very low p-value of 0.002 (Table 4.4), was tested with the fourth set of hypotheses. The p-value is less than 0.01; therefore, there is no evidence to support the null hypothesis. The alternative hypothesis is accepted at more than 99% level of confidence.

Liquidity is another explanatory variable tested. The coefficient is 2.416, R^2 of 47.8% (Figure.4.2.5) and t-value of 2.35, p-value of 0.057 (Table 4. 4). The p-value of 0.057 is slightly greater than 0.05 level of significant; therefore, there is no strong evidence to support the alternative hypothesis of the fifth set of hypotheses. The null hypothesis is accepted at this level of significant. The variable is tested at 10% level of significant. The variable found to be statistically significant, since the value of p-value is less than 0.10. Therefore, the null hypothesis is rejected at this level of significant.

Dividend payout is tested with the sixth set of the hypotheses. The dividend payout variable has coefficient of -0.5022 with R^2 of 26.9% (Figure 4.2.6), the t-value of -1.48, and p-value of 0.188 (Table 4.4). These values show that there is no strong evidence enough to support the alternative hypothesis of the sixth set of the hypotheses**.** Therefore, the null is accepted.

DISCUSSION OF THE RESULTS

The companies based factors, company size, profitability, growth rate, assets tangibility, liquidity and dividend payout were related to the financial leverage of each of the sampled company. The descriptive statistics for the dependent and independent variables (Table 4.1) show that there is a slight variation of the financial leverage ratio of the sampled companies. Companies employ at least 50% of debts in their capital structure, the less debt-financed company employs at least 30% of the debt in its capital structure, and the most debt-financed company employs at least 89% of the debt in its capital structure.

The company sizes of the sampled companies slightly vary. This implies that the companies' assets of the sampled companies are configured with almost the same elements. Profitability of the sampled companies has a high variation of a range of 0.0374 to 0.5359. The less profitable company is 14 as times as the most profitable company. This implies that the companies sampled highly differ in generating income and managing of operating and administrative costs. The growth rates of these companies vary from 0.0508 to 0.4432. The company with smallest growth rate is 9 as times as the company with highest growth rate.

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There is a high variation of the assets tangibility of the sampled companies, the company with smallest assets tangibility ratio is 43 as times as the company with the largest assets tangibility ratio. This fact profiles that the fixed assets of the sampled companies highly vary, and this is true due to the fact that fixed assets highly depends on the nature of business of each of the sampled company. The sampled companies fall under various categories of businesses. Liquidity and dividend payout also show a high variation implying that companies largely differ in debts paying ability.

The company size variable, with a positive slope is significant at 10% (Figure 4.4). This shows that company size variable is a suggestive determinant of the capital structure decisions in the Tanzanian non-financial companies listed at the DSE. This finding fairly does not support Rajan and Zingales (1995) argument, that there is less asymmetric information about the larger companies, which reduce the chance of undervaluation of new equity. The finding confirms to the Titman and Wessels (1988) as well as that larger companies are more diversified and have lesser chances of bankruptcy that should motivate the use of debt financing.

The finding on company size with relation to the financial leverage confirms to the established theories. Trade- off theory suggests that company size should matter in deciding an optimal capital structure because bankruptcy costs constitute a small percentage of the total company value for larger companies and greater percentage of the total company value for smaller companies. As debt increases the chances of bankruptcy, hence small companies should have lower debt ratio. Pecking order theory also expects this positive relation. Since large companies are diverse and have less volatile earnings, asymmetric information problem can be mitigated. Hence, size is expected to have positive impact on leverage. From this fact, size will matter.

The profitability variable is significant at 1% level with the coefficient of -1.144 (Table 4.4) statistically significant validates the acceptance of the alternative hypothesis of the second set of hypotheses. The negative sign approve the prediction of information asymmetry hypothesis by Myers and Majluf (1984). It is thus proved that pecking order theory dominates trade off theory. The finding explains that retained earning is the most important source of financing. Good profitability thus reduces the need for external debt.

The growth rate variable with the positive coefficient value of 0.4091 is statistically insignificant. The finding does not confirm to the agency cost theory, which explains the negative relationship between growth rate and the financial leverage, Jensen and Meckling (1976). The pecking order theory suggests the positive relationship between growth rate and financial leverage, this finding profiles this positive relationship but statistically insignificant. From the stepwise regression results, this variable is the least factor among the best alternative factors, this evidencing that the growth rate variable is not a determinant of the capital structure decision in the Tanzanian non-financial listed companies at DSE.

Asset tangibility, with coefficient of -0.8049 is very significantly related to financial leverage (Figure 4.2.4). This shows that tangibility is one of the most important determinants of the capital structure decisions in Tanzania. The negative sign confirms Grossman and Hart (1982) which suggested that, with high monitoring costs for shareholders of capital outlays for low tangibility of assets companies, there should be a correspondingly high level of debt acting as a cost effective monitoring mechanism. Consequently, this implies a negative relationship. The finding does not confirm to pecking order theory, Rajan and Zingates (1995), Frank, and Goyal (2002) which describes the positive relationship between tangibility and financial leverage, in the sense that tangibility constitutes a form of secured collateral.

Liquidity is another explanatory variable tested and found that is positive related with financial leverage at 10% level (Figure 4.2.5). This finding does not confirm to Juan and Yang (2002) which suggest the negative relationship between financial leverage and ability to pay of a given company. In the finding, the positive relationship explains that the liquidity generates a positive effect in the sense that high liquidity eases the availability of debt. Therefore, the liquidity variable is a suggestive determinant of capital structure decisions in Tanzanian non-financial companies listed at DSE.

Dividend payout is not significantly related to debt. The coefficient of dividend payout is -0.5022 (Figure 4.2.6). This finding does not confirm to the pecking order theory that shows the positive relation between financial leverage and dividend payout. This implies that the dividend payout is not a determinant of the capital structure in Tanzania.

FINDINGS OF THE STUDY

The study was guided by the two researchable questions; namely what are the factors that influence the capital structure decisions in Tanzanian non-financial companies listed at DSE? And how the Tanzanian non-financial companies listed at DSE choose and adjust their strategic financing mix?

The findings profile that the determinants of the capital structure decisions in the Tanzanian non-financial companies listed at DSE are profitability and assets tangibility. The liquidity and company size are the suggestive determinants of the capital structure decisions in Tanzania. Therefore, in answering the first question, factors that influence the capital structure decisions among Tanzanian non-financial companies listed at DSE are profitability, assets tangibility, liquidity and company size.

The answer for second researched question answered by these findings is that the companies choose and adjust their strategic financing mixes, namely debt and equity by considering the determined factors above. Companies choose and adjust debt levels positively to their company sizes and liquidity and negatively to their profitability and assets tangibility levels. This is to say, the company increases the level of debts in its capital structure if its size and liquidity level increases and its vise versa. The companies fairly choose and adjust their capital structure in the sense that the lager company tends to employ more debt in its capital structure. Companies employ less debt if companies are profitable and increase the level of debts if the profits of the companies decrease. Companies do the same for the assets tangibility. The companies with less value of fixed assets tend to increases the level of debt in their capital structures.

CONCLUSION

The study sought to test the validity of various capital structure theories in the Tanzanian context. The objectives of the study were guided by the two researchable questions. The first question was to establish the factors that influence capital structure decisions among non-financial companies listed in DSE, and the second question, was to identify how non-financial listed companies in Tanzania choose and adjust their strategic financing mix.

The findings of this study contribute towards a better understanding of financing behaviour in Tanzanian companies. Using multiple regression model, data was run into stepwise regression to find the determinants of capital structure decisions in Tanzanian non-financial listed companies. The data collected from the financial statements for the three years, 2007-2009. The six explanatory variables that represent company size, profitability, growth rate, assets tangibility, liquidity and dividend payout were related to financial leverage.

If the static trade–off theory holds, significant positive coefficients are expected for profitability, assets tangibility, and company size explanatory variables and negative coefficient for liquidity variable. This finding profiles that there is no strong evidence for validation of the static trade-off theory in Tanzanian context, as evidenced by the coefficients of profitability and assets tangibility variables, which portray negative relationship with financial leverage.

The company size variable has a positive slope, significant at 10% level. This variable confirms to the static trade-off theory in the Tanzanian companies. This implies that large companies with lower profits will have higher debt capacity and will, therefore be able to borrow more and take advantage of any tax deductibility. The liquidity has a positive slope but it is statistically insignificant.

There is a little support for the pecking order theory that predicts significant positive slopes for the growth rate, liquidity, dividend payout, and asset tangibility variables and a negative significant slope for profitability variable. The results suggest that profitability variable confirms to the pecking order theory and assets tangibility does not confirms to this theory, Rajan and Zingates (1995), Frank, and Goyal (2002) which describes the positive relationship between assets tangibility and financial leverage, in the sense that assets tangibility constitutes a form of secured collateral. In other hand, the finding confirms to Grossman and Hart (1982) which suggests that, with high monitoring costs for shareholders of capital outlays for low tangibility of assets companies, there should be a correspondingly high level of debt acting as a cost effective monitoring mechanism. Consequently, this implies a negative relationship. The growth rate, liquidity and dividend payout confirm to this theory but are statistically insignificant.

The agency cost theory predicts a positive significant slope for company size and negative for growth rate and assets tangibility variables. The results suggest that company size is statistical significant at 10% level and confirms to the theory, growth rate variables confirms to agency cost theory but is statistical insignificant. The assets tangibility approves the prediction of this theory.

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Profitability and assets tangibility are the key determinants of the capital structure decisions in Tanzanian non-financial listed companies. Profitability variable confirms to the pecking order theory and fails to confirm static trade-off theory in the Tanzanian context. The assets tangibility is the second important determinant in Tanzania. The variable is negatively related to the financial leverage, that is, the higher the assets tangibility in a company implies the less the debt ratio. Companies that have high level of tangible assets are likely to employ less debt in financing their capitals in Tanzania context. This is due to fact that high monitoring costs for shareholders of capital outlays for low tangibility of assets companies, there should be a correspondingly high level of debt acting as a cost effective monitoring mechanism. Consequently, this implies a negative relationship.

RECOMMENDATIONS

The financing behaviour is a key aspect in the corporate finance, which should be observed in establishing sustainable and profitable companies in Tanzania. Questions such as how, where, why and when to obtain funds are the key questions that should be addressed in companies. The determinants of the capital structure decisions should be a guide to the companies on how to choose and adjust their strategic financing mix. These findings target to equip the investors, directors, managers, academicians and other stakeholders the reality facts on financing behaviuor of the Tanzanian non-financial companies listed at DSE. The findings should lead them to improve their decisions making in their respective areas. Basing on the theoretical and empirical foundations companies should employ debt financing if their internal funds are not enough to finance financial requirements of their companies Myers, (1984). Companies with higher growth rate should demand more funds that need external financing, which is debt Sinha, (1992). The internal financing based on the profitability of the companies improve the dividend payout of the companies that should employ less debt in their capital structures. Ability to pay and collateral strength of companies place companies in a good position of employing debts in their capital structures Rajan and Zingales, (2002), and Juan and Yang, (2002). The company that has high value of its assets (large company) should prefer external financing to internal financing.

Basing on these study findings, the profitability and assets tangibility found to be major determinants. The company with high level of profitability employs less debt in its capital structure components and hence does not improve the dividend payout of it company; external financing is an alternative one of the company with higher level of profitability. The company should observe this to avoid unnecessary burden of debts. The use of internal financing should be done with care since reduces the dividend payout of the companies. The unreliable dividends in the company cause the conflict of interest to rise between the shareholders and managers. This should be observed to safe the shareholders' interests.

The assets tangibility is negatively correlated with the debt ratio. This means that the company with high fixed assets value should employ less debt in its capital structure components and it is vice versa. This is valid if the company has an effective control mechanism in monitoring cost for their shareholders. The company with low level of tangible assets seeks for external source of fund.

The company size and liquidity are the moderate determinants of capital structure decision in Tanzania. They are positively related to financial leverage. The findings suggest that the large and liquidity companies employ more debts in their capital structure components. In due to this finding, companies should be aware of these determinants, the large companies should prefer debt financing to equity financing for tax deductibility benefits. In addition, the companies that have high paying ability should do the same.

For considering of these determinants of capital structure decisions, in our companies, the optimal capital structure should be constructed, and hence the sustainability and profitability of our companies should be improved.

This research can also be extended by using the same methodological approach in a different setting/country and then comparing the findings. This will generate additional insight on the general development of capital structure theories in developing countries.

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