Relationship between capital structure and corporate governance of the firms listed at the Nairobi Stock Exchange

Abstract:

We examine how corporate governance indicators such as board size, board composition, CEO duality and CEO compensation among other factors impact on financing decisions of firms. Corporate governance has been said in previous studies to influence the capital structure decisions of large and listed firms. In Kenya corporate governance is prescribed by section 11(3) and 12 of the Capital Markets Authority Act that empower the Capital Markets Authority to make rules and regulations to govern capital markets in Kenya. Although studies have been done in Kenya on capital structure and corporate governance of companies that are listed at the Nairobi Stock Exchange, none seem to show whether or not there is a relationship between the corporate governance and capital structure of the firms. The objective of this study was therefore to determine whether there is a relationship between capital structure and corporate governance of the firms that are listed at the Nairobi Stock Exchange. A census study of the firms that have been consistently listed at the Nairobi Stock Exchange over the financial period 2003/2004 – 2007/2008 was done. Primary data was collected from CEOs of the listed firms using a validated structured questionnaire. The secondary data was collected from annual financial statements of the target firms. Analysis was done within the Random effects GLS regression framework. Findings of the study indicate that firms with larger board sizes employ more debt irrespective of the maturity period and also the independence of a board negatively and significantly correlates with short-term debts. Again, when a CEO doubles as board chairperson, less debt is employed. Thus, the study reaffirms the notion that the governance structure of a firm affects its financing choices.