

**THE EFFECT OF CAPITAL STRUCTURE ON THE CORPORATE
GOVERNANCE OF COMPANIES LISTED AT THE**

NAIROBI SECURITIES EXCHANGE

BY

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D63/75846/2012

**RESEARCH PROJECT IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE**

OF MASTERS OF SCIENCE IN FINANCE OF THE

UNIVERSITY OF NAIROBI

OCTOBER 2013

DECLARATION

This is my original work and has not been presented in any other university or college for examination purpose.

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Supervisor's Declaration

This research project has been submitted for examination with my approval as the University Supervisor.

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ACKNOWLEDGEMENT

I wish to thank The Almighty God for His grace and favor upon me all this while. I wish to express my gratitude to my supervisor, Dr. Cyrus Irayafor his professional guidance andmotivation that enabled me compile this project. I also extend gratitude to my parents for their unending support throughout my education.

DEDICATION

To my mother Mary; for her parental love, guidance and humble upbringing.

To my sister Irene; for her inspiration and encouragement to great achievement.

To my lecturers, fellow students and true friends; for their social and academic backing.

ABSTRACT

Corporate governance is concerned with the way that power is exercised over corporate entities. Capital structure refers to the combination of debt and equity capital that a firm uses to finance its long-term operations. The capital structure choice of the firms becomes important factor in corporate governance practices. The relation between capital structure and corporate governance becomes extremely important when considering its fundamental role in value generation and distribution. The objective of this study was to investigate the effect of capital structure on corporate governance of firms listed at the Nairobi security exchange.

The study employed descriptive survey design with the population of the study being 51 companies listed on the NSE. The sample size for this study was made up of 35 listed companies excluding the financial, investment and insurance companies due to their peculiar nature of capital structure. The study used secondary data from annual reports of the quoted companies over a period of five years. The data was analyzed through the use of Statistical Package for Social Sciences (SPSS).

Results from the study indicate that most firms in the NSE use more debt or long term liability as a source of financing than equity capital from shareholders. ANOVA statistics presented showed that the overall model was statistically significant as this was supported by an F statistic of 3.4 and a probability (p) value of 0.021. Regression of coefficients results showed that there was a positive relationship between corporate governance and capital structure, size of the firm, liquidity and firm opportunity whose beta coefficients are 0.072, 0.000, 0.215 and 0.933 respectively. Statistically significant variables in the study were capital structure, size of the firm and opportunity of the firm as they had p values of 0.000, 0.008 and 0.034 which is lower than the probability conventional of 0.05. These findings show that companies in the NSE have good return on assets and have the ability to meet their short term obligations when they fall due. Further, most firms in the NSE use more debt or long term liability as a source of financing than equity capital from shareholders. This study adds on to theory because it tests the reverse relationship between capital structure and corporate governance.

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LIST OF ABBREVIATIONS

CDSC-Central Depository and Settlement Corporation

CMA-Capital Markets Authority

CMC - Cooper Motor Corporation

EAC-East Africa Community

ISS-Institutional Shareholder Services

KSE-Karachi Stock Exchange

LSE- Lahore Stock Exchange

NSE-Nairobi Security Exchange

ROE - Return on equity

SME's - Small & Medium enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The importance of capital structure in a growing organization is imminent. Moreover, there is need to understand different sources of funds for organizations and what informs the decision on their choice of capital structure. A company that uses very high leverage may face high risk of debt as it is obligated to pay consistent interest to its lenders. This limits payment of dividends to the shareholders (Onyuma, Mugo&Karuiya, 2012). Low or non-payment of dividends discourages investors from investing in shares thus reducing the shareholding capacity. High debt levels are also not optimal because they may lead to losses. When a company incurs losses, then it also loses its tax shield. In addition, high levels of debt lead to financial distress and bankruptcy costs. This may erode the brand image and confidence that investors have on the company (Adelegan, 2009).

On the other hand, debt has a positive side to it. It creates leverage on the few resources of the company. A company is therefore able to exploit growth opportunity projects using debt and this has a positive impact on the maximization of shareholder wealth. The improvement in shareholders wealth is the main objective of any profit making organization (Suhaila and Mahmood, 2009). The advantages and disadvantages of leverage imply that firms operating in a turbulent social and economic environment need to do a balancing act on the use of equity and debt. In other words, it is a key

concern for a profit maximizing firm to choose an optimal capital structure. However, the means to choosing appropriate and acceptable capital structure by firm's top management is still highly debated and a lot of inconclusiveness exists. Currently, there exists no conclusive research on how best to achieve an optimal capital structure and one may argue that this debate will continue into the foreseeable future (Pindado and Torre, 2004).

1.1.1 Corporate Governance

According to Rukaria (2010), corporate governance is about structures and institutions by which rights and obligations among different participants in corporate world such as the board, management, shareholder and other stakeholders are spelt to ensure equity and fair play. Through strengthening of these structures, institutions are able to promote corporate fairness, transparency and accountability. According to Tricker (2010) corporate governance is a complex multi-faceted subject matter involving not only legislation and regulation but also what is known as 'best practice', which is a matter of corporate culture, mind-set and education. Corporate governance is concerned with the way that power is exercised over corporate entities. All corporate entities need governing; be they listed companies, wholly owned subsidiaries, family dominated companies, joint ventures, not-for-profit entities and any other.

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and likewise require accountability for the stewardship of these resources. The proper governance of

companies will become as crucial to the world economy as the proper governance of countries, clearly stated by James D. Wolfensohn, President of the World Bank (Gatamah, 2004). The aim is to align as nearly as possible the interests of individuals, corporations and society.

Corporate Governance is measured in various ways; financial efficiency, social legitimacy or more generally goal attainment (Aguilera et al., 2008). In order to analyze the impact that Corporate Governance has on different measures of corporate performance, academics and commercial providers have either used individual variables (such as board independence and ownership structure) or have attempted to construct composite measures of corporate governance practices. Despite considerable efforts and despite considerable sophistication of measures and methods, the results so far are surprisingly ambiguous and contradictory (Bhaghat et al., 2008). In particular, it has proven very difficult to show that even sophisticated professional measures of the quality of a company's corporate governance system produced by different commercial providers are indeed able to predict future performance.

1.1.2 Capital Structure

Capital structure refers to the combination of debt and equity capital that a firm uses to finance its long-term operations. Brealey and Myers (2003) define capital structure as the firm's mix of different securities used in financing its investments. They observe that a firm can issue dozens of distinct securities in countless combinations, but it tries to find the particular combination that maximizes its overall market value. Capital structure refers to the mix of its financial resources available to a business (Myers, 2003). Akram

and Ahmad (2010) describe the capital structure of a firm as the components of its sources of financing, broadly categorized as equity and debt. Equity is the finance that is provided by owners of the business. The equity finance holders own a portion of the firm denominated in shares and they are entitled to the profits of a business and are also entitled to share in the risks of the business

The value of a firm depends upon its expected earnings stream and the rate used to discount this stream. The rate used to discount earnings stream is the firm's required rate of return or the cost of capital. Capital structure decision can thus affect the value of the firm either by changing the expected earnings or the cost of capital or both.

Capital structure refers to the mix of its financial resources available to a business (Myers, 2003). Brockington (1990) describe the capital structure of a firm as the components of its sources of financing, broadly categorized as equity and debt. Equity is the finance that is provided by owners of the business. An optimal capital structure would be obtained at the combination of debt and equity that maximizes the total value of the firm (Value of equity plus value of debt) or minimizes the weighted average cost of capital (Pandey, 2002).

There are various measures of capital structure, which can be classified as accounting based measures. When choosing a measure of capital structure, it is useful to keep in mind that the theoretical framework for the relationship between capital and performance is based on market values of leverage. Since market values of leverage may be difficult to obtain, accounting based measures are often applied as proxies. Rajan and

Zingales (1995) suggest that the choice of measure should be based on the objective of the analysis. For instance, the ratio of total liabilities to total assets can be considered as a proxy for what is left for shareholders after liquidation, but is not a good indication of the firm's risk of default in the near future. Also, since total liabilities include such balance sheet items as accounts payable, which are used for transactions purposes rather than for financing, it may overstate the amount of leverage. This measure can be improved by subtracting accounts payable and other liabilities from total assets. There is still one issue of concern since the measure contains liabilities that are not related to financing, for example, pension liabilities, thereby underestimating the size of leverage. The ratio of total debt to capital, where capital is defined as total debt plus equity, is assumed to solve this problem and can be seen as the best accounting based proxy for leverage (Rajan and Zingales, 1995). $\text{Total Debt} / \text{Equity}$ is a measure of all of a company's future obligations on the balance sheet relative to equity. However, the ratio can be more discerning as to what is actually a borrowing, as opposed to other types of obligations that might exist on the balance sheet under the liabilities section. For example, often only the liabilities accounts that are actually labeled as "debt" on the balance sheet are used in the numerator, instead of the broader category of "total liabilities". In other words, actual borrowings like bank loans and interest-bearing debt securities are used, as opposed to the broadly inclusive category of total liabilities which, in addition to debt-labeled accounts, can include accrual accounts like unearned revenue and contra accounts like allowance for bad debts.

1.1.3 Relationship between Capital Structure and Corporate Governance

The capital structure choice of the firms becomes important factor in corporate governance practices. Financial policies of the firms are commonly the real problem of the decision-making process. It could be a subject of debates among many interests of organization. Meanwhile, the issue of corporate capital structure itself becomes one of the central controversies in modern corporate finance theories. Debates are centered on optimum capital structure: whether or not an optimum capital structure is relevant for individual firm's choice. Chevalier & Rokhim (2006) insist that well-defined target debt ratio for individual firms is not relevant. Since asymmetry of information is present in the capital market, firms prefer to use retained earnings as their main source of funds in investment than debt. Three famous theories currently dominate the debates of firm capital structure, namely free cash-flow model, pecking-order model and agency theory model (Chevalier & Rokhim, 2006).

According to free cash flow theory of capital structure innovated by Jensen (1986), leverage itself can also act as a monitoring mechanism and thereby reduces the agency problem (hence increasing firm value), by reducing the agency costs of free cash flow. There are some consequences derived if firm is employing higher leverage level. Managers of such firm will not be able to invest in non-profitable new projects, as doing so the new projects might not be able to generate cash flows to the firm, hence managers might fail in paying the fixed amount of interest on the debt or the principal when it's due. It also might cause in the inability to generate profit in a certain financial year that may result in failing to pay dividends to firm shareholders. Agency theory is a concept

that explains why behavior or decisions vary when exhibited by members of a group. Specifically, it describes the relationship between one party called the principal that delegates work to another, called the agent. It explains their differences in behavior or decisions by noting that the two parties often have different goals and independent of their respective goals, may have different attitudes toward risk. The capital structure may include debt covenant if leverage is a part of capital structure. The debt covenants act as a corporate governance mechanism and may influence how the other corporate governance mechanisms such as board characteristics are structured(MurtishawandSathaye, 2006).

RehmanandRehman (2010) found that there is no relationship between corporate governance and capital structure in the banking sector of Pakistan, their findings show that all independent variables are positively related with capital structure but overall there is an insignificant relationship between capital structure and corporate governance.

Kumar (2006) results show that the debt structure is non-linearly linked to the corporate governance.

They find that firms with weaker corporate governance mechanisms, dispersed shareholding pattern, they do not find any significant relationship between ownership of directors and corporate with the capital structure.

1.1.4 Nairobi Securities Exchange

In Kenya dealing in shares and stock started in the 1920's when the country was still under the British colony. There was no formal market, no rules and no regulations to govern stock broking activities. Trading took place on gentlemen agreement in which standard commissions were charged with clients being obligated to honor their contractual commitments of making good delivery and settling relevant costs. At that time, stock broking was a sideline business conducted by accountants, auctioneers, estate time agents and lawyers who met to exchange price over a cup of coffee. These firms were engaged in other areas of specialization, therefore the need for association did not rise.

In 1951 an Estate Agent by the name of Francis Drummond established the first professional stock broking firm. They impressed upon Sir Ernest Vasey the idea of setting up a stock exchange in 1953 and the London Officials accepted to recognize the setting up of the Nairobi Stock Exchange (NSE) as an overseas stock exchange (Muga, 1974). The Nairobi Stock Exchange was constituted as a voluntary association of stock brokers registered under the societies Act in 1954. The dealing in shares was then confined to the resident European community, since Africans and Asians were not permitted to trade in securities until after the attainment of independence in 1963.

The Nairobi stock exchange (NSE, 2011) was established in 1954 as a voluntary association of stock brokers with the objective to facilitate mobilization of resources to provide long term capital for financing investments. Through stringent listing requirements the market promotes higher standards of accounting, resource management

and transparency in the management of business. The NSE is regulated by Capital Markets Authority (CMA, 2011) which provides surveillance for regulatory compliance. The exchange has continuously lobbied the government to create conducive policy framework to facilitate growth of the economy and the private sector to enhance growth of the stock market (Ngugi, 2005). The NSE is also supported by the Central Depository and Settlement Corporation (CDSC) which provides clearing, delivery and settlement services for securities traded at the Exchange. It oversees the conduct of Central Depository Agents comprised of stockbrokers and investments banks which are members of NSE and Custodians (CDSC, 2004). These regulatory frameworks are aimed to sustain a robust stock market exchange that supports a cogent and efficient allocation of capital allowing price discovery to take place freely based on the market forces.

1.2 Research Problem

The relation between capital structure and corporate governance becomes extremely important when considering its fundamental role in value generation and distribution (Bhagat and Jefferis, 2002). Through its interaction with other instruments of corporate governance, firm capital structure becomes capable of protecting an efficient value creation process, by establishing the ways in which the generated value is later distributed (Zingales, 1998); in other words the surplus created is influenced (Zingales, 2000). Capital structure has become an instrument of corporate governance, not only the mix between debt and equity and therewell known consequences as far as taxes go must be taken into consideration. The way in which cash flow is allocated (cash flow right)

and, even more importantly, now the right to make decisions and manage the firm (voting rights) is dealt with must also be examined. For example, venture capitalists are particularly sensitive to how capital structure and financing contracts are laid out, so that optimal corporate governance can be guaranteed while incentives and checks for management behavior are well established (Zingales,2000).

Firms listed in Nairobi securities exchange have increasingly used debt especially after the pursuit of expansion policies by the government of Kenya since the year 2002 at the same time corporate Governance has also received increased attention from both policy makers and practitioners. The problem is - does use of debt affect the corporate governance mechanism employed by firms? However some listed firms also show poor corporate governance such as CMC motors which was delisted because of board wars. Others have issued corporate bonds for example Safaricom, Consolidated bank and Kengen. It may be important to investigate whether the trends in capital structure influences the trends in corporate governance.

Studies conducted about capital structure and corporate governance has ended up with mixed results. Rehman and Raof (2010) investigated the relationship between corporate governance and capital structure of randomly selected 19 banks of Pakistan from 2005-2006 and found a positive relationship. Similar positive relation was reported by Rajendran (2012) in his study of Srilankan manufacturing firms. Contradictory findings are reported by Saad (2010) who studied 126 Malaysian publically listed companies and results showed a negative relationship. Due to such mixed findings, there is need for a Kenyan specific study in order to establish which school of thought is supported by the

Kenyan phenomena. It is for this research gap that the study wished to address the following research question: what are the effects of capital structure on corporate governance of firms listed at the Nairobi security exchange?

1.3 Objective of the study

The objective of this study was to investigate the effect of capital structure on corporate governance of firms listed at the Nairobi security exchange.

1.4 Value of the study

The choice of the financial policy is one of the most important decisions that a company will ever take. It consists on determining the optimal capital structure of the companies. This research will provide assistance in evaluating whether corporate governance of firms listed at the Nairobi Securities Exchange is determined by capital structure.

This study is useful to the managers in guiding them towards making financing decisions that are in line with Shareholders wealth maximization and will help manager's to know if their firms have been reducing their interest –bearing liabilities. It will also help firms towards establishing their creditworthiness. Furthermore, the study will help investors to increase their investment opportunities by creating arbitrage opportunities. Academicians will use the research to add on their wealth of knowledge and constitute a firm foundation for further research in the area of study. The study will guide other researchers who may wish to do a similar study in the other East Africa Community (EAC) member countries.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses theories relevant to the study. Literature related to the study is also reviewed with the aim of identifying literature gaps. The literature review guides the relevance of the study findings

2.2 Theoretical Review

This section contains review of theories relevant to the study.

2.2.1 Agency Theory

This theory has its origins in the early 1930s when Berle & Means (1932) explored the corporate revolution. They revealed that at the early stage, corporations were managed by the founders themselves. As corporations grew, the owners sought external sources of financing. Hence, corporations issued equity. As a result, corporations became owned by external shareholders, where the evolution of separation between owners (ownership) and managers (control) commenced.

There are three types of separation of ownership and control. The first is majority control. This is where some of the shareholders own majority of shares, and the

remainders are widely diffused and only hold a portion of the shares. Hence, only the remainder shareholders are separated from control. The second is minority control, where ownership is widely spread. As such, the greater part of ownership is practically without control. The third is management control. There is no existence of large minority shareholders which results directors or managers responsible in controlling the corporation. The third type of separation of ownership and control is known as Quasi-public Corporation, which it has been resulted as the increment of owners. This happened because Quasi-public Corporation gets its supply of capital from a group of investors, known as “investing public” (Berle & Means, 2002, p. 6). There are two types of investors, which are either as an individual, they invest directly in purchasing the corporation’s stocks or bonds, or invest indirectly by investing in insurance companies, banks and investment trusts, which will invest in corporate securities on behalf of the investors.

Goergen and Renneboog (2001) argued that if there are insufficient monitoring mechanisms in a firm such as having a diffuse ownership structure (which is the opposite of the ownership concentration structure), it may lead to high managerial discretion which may increase the agency costs. As has been argued in the literature, the level of monitoring is a function of such variables as institutional ownership, block ownership by outsiders, the technology in place to monitor the managers (Bajaj, Chan & Dasgupta, 1998) and forecasted profit gain derived from the monitoring (Demsetz & Lehn, 2005).

2.2.2 Pecking Order Theory

Pecking Order Theory, states that capital structure is driven by firm's desire to finance new investments, first internally, then with low-risk debt, and finally if all fails, with equity. Therefore, the firms prefer internal financing to external financing (Myers and Majluf, 1984). This theory is applicable for large firms as well as small firms. Since small firms are opaque and have important adverse selection problems that are explained by credit rationing; they bear high information costs (Psillaki, 1995). Since the quality of small firms financial statements vary, small firms usually have higher levels of asymmetric information. Even though investors may prefer audited financial statements, small firms may want to avoid these costs (Pettit and Singer, 1985). Therefore, when issuing new capital, those costs are very high, but for internal funds, costs can be considered as none. For debt, the costs are in an intermediate position between equity and internal funds. As a result, firms prefer first internal financing (retained earnings), then debt and they choose equity as a last resort (Pettit and Singer, 1985)

2.2.3 Free Cash Flow Theory

According to free cash flow theory of capital structure innovated by Jensen (1986), leverage itself can also act as a monitoring mechanism and thereby reduces the agency problem hence increasing firm value, by reducing the agency costs of free cash flow. There are some consequences derived if firm is employing higher leverage level. Managers of such firm will not be able to invest in non-profitable new projects, as doing so the new projects might not be able to generate cash flows to the firm, hence managers

might fail in paying the fixed amount of interest on the debt or the principal when it's due. It also might cause in the inability to generate profit in a certain financial year that may result in failing to pay dividends to firm shareholders.

Furthermore, in employing more leverage, managers are forced to distribute the cash flows, including future cash flows to the debt holders as they are bonded in doing so at a fixed amount and in a specified period of time. If managers fail in fulfilling this obligation, debt holders might take the firm into bankruptcy case. This risk may further motivate managers to decrease their consumption of perks and increase their efficiency (Grossman and Hart, 1982). This statement has been supported by Jensen (1986) which states that from the agency view, the higher the degree of moral hazard, the higher the leverage of the firm should be as managers will have to pay for the fixed obligation resulting from the debt. Hence, it will reduce managers' perquisites. Extensive research suggests that debt can act as a self-enforcing governance mechanism; that is, issuing debt holds managers' "feet to the fire" by forcing them to generate cash to meet interest and principle obligations (Gillan, 2006). Measures of capital structure and corporate governance

2.3 Measures of Capital Structure and Corporate Governance

The relation between capital structure and corporate governance becomes extremely important when considering its fundamental role in value generation and distribution (Bhagat and Jefferis, 2002). Capital structure has become an instrument of corporate governance; not only the mix between debt and equity and their well-known consequences as far as taxes go must be taken into consideration. Through its

interaction with other instruments of corporate governance, firm capital structure becomes capable of protecting an efficient value creation process, by establishing the ways in which the generated value is later distributed (Zingales, 1998); in other words the surplus created is influenced (Zingales, 2000).

2.3.1 Measures of Capital Structure

Capital structure can be measured by the amount of debt. The debt to equity ratio gives the proportion of company assets that are financed by debt versus equity. It is a common measure of the long-term viability of a company's business and, along with current ratio, a measure of its liquidity, or its ability to cover its expenses. As a result, debt to equity calculations often only includes long-term debt rather than a company's total liabilities. (Chevalier and Rokhim, 2006)

A high debt to equity ratio implies that the company has been aggressively financing its activities through debt and therefore must pay interest on this financing. If the company's assets generate a greater return than the interest payments, then the company can generate greater earnings than it would without the debt. If not, however, and the company's debt outweighs the return from its assets, then the debt cost may outweigh the return on assets. Over the long-term, this would lead to bankruptcy. Investors should take this into consideration when investing in a company with a high debt to equity ratio, especially in times of rising interest rates. Debt to equity ratios vary across industries. Capital intensive industries such as airplane manufacturers tend to have higher debt to equity ratios typically greater than 2. Less capital intensive industries,

such as a software company, can have lower debt to equity ratios of under 5 (Zingales, 2000).

2.3.2 Measures of Corporate Governance

To measure corporate governance quality, we employ the governance standards provided by the Institutional Shareholder Services (ISS). The ISS governance standards include 51 factors encompassing eight corporate governance categories: audit, board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation. The ISS governance standards are the most all-inclusive data on corporate governance ever collected.

Boards of directors are a crucial part of the corporate structure. They are the link between the people who provide capital (the shareholders) and the people who use that capital to create value (the managers). This means that boards are the overlap between the small, powerful group that runs the company and a huge, diffuse, and relatively powerless group that simply wishes to see the company run well (Business Roundtable, 2005). The single major challenge addressed by corporate governance is how to grant managers enormous discretionary power over the conduct of the business while holding them accountable for the use of that power. A company's owners may number in the tens of thousands, diffused worldwide. So shareholders are granted the right to elect representatives to oversee the management of the company on their behalf. Directors are representatives of owners (or, in closely held companies, the owners themselves), whose purpose under law is to safeguard the assets of the corporation (Monks and Minow, 2004)

2.4 Empirical Review

The term capital structure refers to the percentage of capital (money) at work in a business by type. It is a mix of a company's long-term debt, specific short-term debt, common equity and equity and it simply describes how a firm finances its overall operations and growth by using different sources of funds. Broadly speaking, there are two forms of capital: equity capital and debt capital. Each has its own benefits and drawbacks and a substantial part of wise corporate management is attempting to find the optimal capital structure in terms of risk/reward payoff for shareholders. There are several strands of literature that are relevant to the proposed research.

Banjeree et al. (2004) did a study on the dynamics of capital structure. They used a dynamic adjustment model and panel data methodology on a sample of UK and US firms to specifically establish the determinants of a time-varying optimal capital structure. They concluded that firms typically have capital structure that are not at the target and that they adjust very slowly towards the target market. Lemmon et al (2001) also did a study on debt capacity and tests of capital structure theories. Using empirical models estimated by Shyam–Sunder/Myers and Frank /Goyal to analyse capital structure determinants in USA, they concluded that the pecking order appears to be good description of the financial policies of majority of the firms.

Baner (2004) examined the capital structure of listed companies in Visegrad countries (Czech Republic, Hungary, Poland and Slovak Republic) during the period from 2000 to 2001. The results are based on the database, which assembles financial reports of listed firms. In his study, six potential determinants of capital structure are analyzed size,

profitability, tangibility, growth opportunities, non-debt tax shields and volatility. According to his findings, leverage of listed firms in Visegrad countries is positively correlated with size. Leverage is negatively correlated with profitability. This finding is consistent with the pecking-order hypothesis rather than with static trade-off models. Also, leverage is negatively correlated with tangibility and non-debt tax shields. There is a negative relationship between leverage measured in market value and growth opportunities.

Zeitun and Tian (2007) in his study on the Jordanian firms found a highly negative relation between the firm performance by employing both market and accounting based variables. Whereas the relation among capital structure variables and firm performance varies across industries. The relation is insignificant between capital structure variables and performance variables in the engineering sector firms. Accounting based variables of capital structure were debt (short term, long term and total debt) to total assets and total debt to total equity whereas accounting based measure for performance was ROA. The accounting based measure ROE (return on equity) has an insignificant relation with capital structure in all forms in Jordanian firms. Further, the market based measures for performance was Tobin's Q and price earnings ratio.

Shah and Khan (2007) on the Pakistani firms listed on three Stock Exchanges found a negative and significant relation among leverage levels and performance. They highlighted the existence of possible bias in their finding because many Pakistani firms are family controlled businesses. They inflate production costs and draw the profits from

the firms other than dividend. The income statement shows negative profits. The lead to a decline in equity levels and the ratio of debt increases in the overall ratio of financing.

Seppa (2008) found that the Estonian firms follow Peking Order hypothesis in deciding about the optimal capital structure. Estonian firms first utilize internal funds to finance opportunities then move towards external source of financing. Further, large size firms also employ more external funds when internal funds are insufficient to finance opportunities. Large firms obtain funds easily and with less collateral compared to small firms. The choice of capital structure in Estonian firms is also largely influenced by industry specific and country specific factors.

Ebaid (2009) in his study on the emerging market economy of Egypt find that the selection of capital structure mix has a very weak relationship with performance. He found that the relation among capital structure variables including short term, long term and total debt to total assets has insignificant relationship with performance measured by ROE (return on equity). Whereas, the relation of short term debt and total debt to total assets is negative and statistically significant with the performance. A negative insignificant relation exists for the long term debt with return on assets. Further, the relation of the capital structure with performance measured by the gross profit margin is also insignificant.

Abor and Biekpe (2007) explore the link between corporate governance and the capital structure decision of SMEs. The results show negative association between capital structure and board size. Positive relationships between capital structure and board composition, board skills and CEO duality are, however, found. The control variables in

the model show signs which are consistent with standard capital structure theories. The results generally suggest that SMEs pursue lower debt policy with larger board size. Interestingly, SMEs with higher percentage of outside directors, highly qualified board members and one-tier board system rather employ more debt. It is clear, from the study, that corporate governance structures influence the financing decisions of Ghanaian SMEs.

Ahmadpour, Golmohammadi & Ahmad (2012) did a study on Corporate Governance and Capital Structure performance in Pakistani Textile sector. The purpose of the study was to investigate whether there is any relationship between some specific features of corporate governance and capital structure of listed firms in Tehran Stock Exchange. The ownership concentration, board independence, board size, institutional share ratio, CEO duality and internal auditor were considered as independent variables whereas, debt ratio (as a criterion for capital structure) as dependent variable. The results indicated a positive relationship between ownership Concentration, board size, internal auditor and capital structure but a negative relationship between institutional share ratio and capital structure. In addition, no significant relationship was found between 'Board Independence, CEO duality' and capital structure.

Musyoka (2009) examined the relationship between capital structure and corporate governance of the firms listed at the Nairobi Securities Exchange. He examined how corporate governance indicators such as board size, board composition, CEO duality and CEO compensation among other factors impact on financing decisions of firms. 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 randomeffects 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

Mang'unyi(2011)conducted a study on ownership structure and corporate governance and its Effects on Performance and took a case of selected banks in Kenya. The study revealed that there was no significant difference between type of ownership and financial performance, and between banks ownership structure and corporate governance practices .This study recommends that corporate entities should promote corporate governance to send a positive signal to potential investors. The Central Bankof Kenya (CBK) should continue enforcing and encouraging firms to adhere to good corporate governance for financial institutions for efficiency and effectiveness. Finally, regulatory agencies including the government should promote and socialize corporate governance and its relationship to firm performance across industries

Wambua(2011) conducted a study on the effects of corporate governance on savings and credit co-operatives (Sacco's) financial performance in Kenya and found that good corporate governance aims at increasing profitability and efficiency of organizations and

their enhanced ability to create wealth for shareholders, increased employment opportunities with better terms for workers and benefits to stakeholders. Indicators of Good Corporate Governance identified in the study include independent directors, independence of committees, board size, split chairman/CEO roles and the board meetings. He concluded that better corporate governance is correlated with better operating performance and market valuation. Corporate governance mechanisms assure investors in corporations that they will receive adequate returns on their investments. Evidence suggests that corporate governance has a positive influence over corporate performance.

Maina and Sakwa (2012) conducted a study on understanding financial distress among listed firms in Nairobi stock exchange and took a quantitative approach using the z-score multi-discriminate financial analysis model. The results clearly indicated that the financial health of the listed companies needed to be improved. In addition, a disjoint was noted in the correlation between what is expected of the listed companies in terms of financial performance and the benefits to be accrued from CMA surveillance on them.

2.5 Summary of Literature Review

Studies conducted about capital structure and corporate governance have ended up with mixed results. Rehman and Raof (2010) investigated the relationship between corporate governance and capital structure of randomly selected 19 banks of Pakistan from 2005-2006 and found a positive relationship. Similar positive relation was reported by Rajendran (2012) in his study of Sri-Lanka manufacturing firms. Local studies such as Musyoka (2009); Mang'anyi (2011); Wambua (2011); Maina and Sakwa

(2012) focused on the effect of corporate governance structure on capital structure and ignored the fact that capital structure may also influence the corporate governance mechanisms employed. Contradictory findings are reported by Saad (2010) who studied 126 Malaysian publically listed companies and results showed a negative relationship. Due to such mixed findings, there is need for a Kenyan specific study in order to establish which school of thought is supported by the Kenyan phenomena.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains review of literature of research design, population, sample and data analysis. Research methodology is the architecture or the layout of the research framework. According to Polit and Hungler (2003) methodology refers to ways of obtaining, organizing and analyzing data.

3.2 Research Design

Research design is an outline of research study which indicates that what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data. A research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in research procedure (Kothari, 2004). Research design can be thought of as the logic or master plan of a research that throws light on how the study is to be conducted. It shows how all of the major parts of the research study– the samples or groups, measures, treatments or programs, etc.–work together in an attempt to address the research questions. Research design is similar to an architectural outline.

This study employed descriptive survey design. Descriptive survey is conducted to describe the present situation, what people currently believe, what people are doing at the moment and so forth (Baumgartner, Strong and Hensley, 2002). According to Kothari (2004), descriptive survey design includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive research design is description of the state of affairs as it exists at present (Kothari, 2004).

3.3 Population

Burns and Grove (2003) and Mugenda and Mugenda (2003) describe population as all the elements that meet the criteria for inclusion in a study. Population is therefore the entire group of individuals, events or objects having a common observable characteristic. The population of the study consisted of 51 companies listed on the NSE.

3.4 Sampling Technique

According to Polit and Beck (2003), a sample is a proportion of population to be researched, while Kothari (2004) defines a sample as the selected respondent representing the population. Purposive sampling technique will be used to select the sample firms. The sample size for this study was made up of 35 listed companies excluding the financial companies, Investment and Insurance companies due to their peculiar nature of capital structure. The study relied on Secondary data sourced from annual audited financial statement of the firms listed on Nairobi Securities Exchange.

3.5 Data Collection Method

This study used secondary data from annual reports of the quoted companies over a period of five years i.e. 2007-2011.

3.6 Data Processing and Analysis

The data was analyzed through coding in a spreadsheet where the researcher used descriptive statistics to present the performance of independent variables in tables. A regression was run to determine the coefficients of the independent variables in relation to the dependent variable. The use of the Statistical Package for Social Sciences (SPSS) helped the researcher to establish the impact of the independent variable to the dependent variable. The results of the findings were presented in the form of tables and charts for easy interpretation and understanding.

The multivariate model was as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where;

Y = Corporate Governance Practices

X₁ = Capital Structure

X₂ = Size of the Firm

X₃= Liquidity of the Firm

X₄= Growth Opportunity of the Firm

In the model, β_0 = the constant term while the coefficient $\beta_i = 1 \dots 4$ was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model.

The choice of these variables was informed by the fact that corporate governance practices may vary across firms with different sizes, that is, bigger firms may have better corporate governance practices compared to smaller firms. Liquidity of the firm may influence the corporate governance practices of a company, that is, the higher the liquidity the better the corporate governance practices. The higher the growth opportunities of the firm the higher the expected corporate governance practices.

In its complete form, the model is;

Corporate governance = $a + b_1 D/E + b_2$ size of firm + b_3 liquidity of firm + b_4 growth opportunity + e

Corporate governance was measured by the board size, the ratio of executive to non-executive directors (board independence), board committees, board meetings, CEO Duality. A mean score of corporate governance constructed using the 5 indicators was used.

Capital structure was measured by total debt to Equity ratio to be obtained from financial statements.

Size of the firm was measured by the log of total assets

Liquidity of firm was measured by the liquidity ratio obtained from the division of current assets to current liabilities

The growth opportunity of the firm was measured by Book Value over Market value.

The sign of the regression coefficient indicated the relationship to be either positive or negative. The strength of the relationship was measured by the reported p values. A p value of less than 0.05 indicated that a relationship was strong or significant.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter discusses analysis of data and findings. The data has been analyzed using descriptive statistics to generate frequencies and inferential statistics.

4.2 Descriptive Statistics

This section provides results on measures of central tendency of the variables; capital structure, size of firm, liquidity, opportunity and corporate governance being measured in the study.

4.2.1 Measures of Central Tendency

Results in Table 4.1 show that the firms in Nairobi Stock Exchange which were used in the study had a mean of 5.421 capital structures with a standard deviation of 5.800 which means that there is a possibility of extreme figures. The size of the firms had a mean of 15.4 with a standard deviation of 1.394. The mean presented by liquidity and opportunity in market growth of the firms in NSE indicated a mean of 1.568 and 1.544 with a standard deviation of 0.5963 and 1.2033 respectively. Corporate governance measure showed a mean of 21.582 and a standard deviation of 2.945. The results above indicate that most firms in Kenya use debt more than equity capital to finance its assets.

Table 4.1: Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Capital structure	0.1	18.7	5.421	5.8008
Size of firm	13.2	18.59	15.4	1.3946
Liquidity	0.4	2.8	1.568	0.5963
Opportunity	0.3	5	1.544	1.2033
Corporate Governance	17	30	21.582	2.9457

Source: Researcher 2013

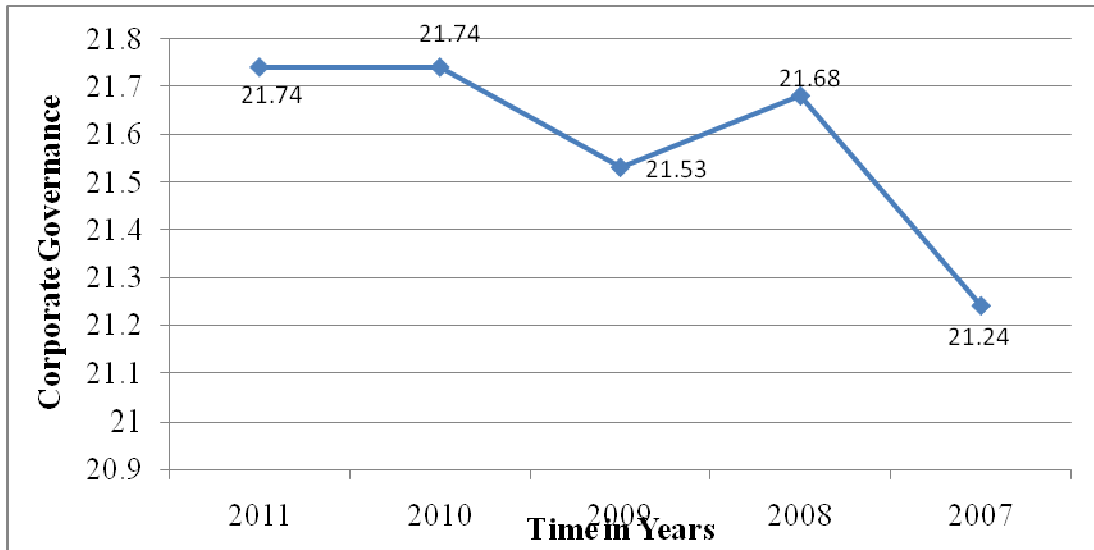
4.3 Trend Analysis

This section provides graphical representation of the movement and changes of the variables under study over the years 2007 to 2011.

4.3.1 Annual Trends in Corporate Governance

Figure 4.1 present an increase in corporate governance from year 2007 to 2008 with a slight decrease in 2009 followed by a constant in years 2011 and 2012. This indicates that there was a renewed interest in corporate governance from year 2007 hence the rise in trend from that year. The results also show that the governance of companies is well endowed.

Figure 4.1: Trend Analysis in Corporate Governance

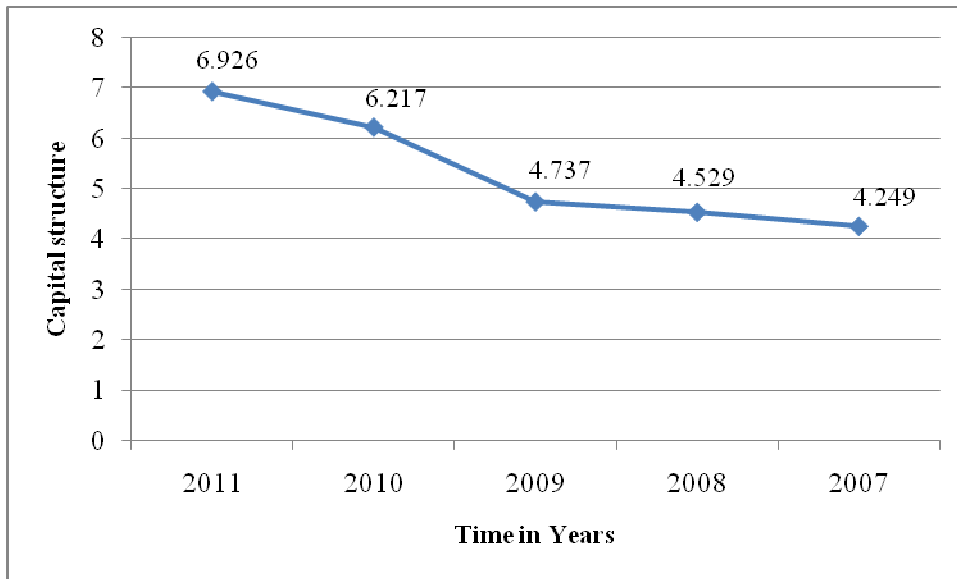


Source: Researcher 2013

4.3.2 Annual Trends in Capital Structure

Results in figure 4.2 show a steady increase in the capital structure of firms in the Nairobi's Stock Exchange from years 2007 to year 2011. The rise in capital structure through the years indicates that companies used more debt as a source of financing its assets than equity capital.

Figure 4.2: Trend Analysis in Capital Structure

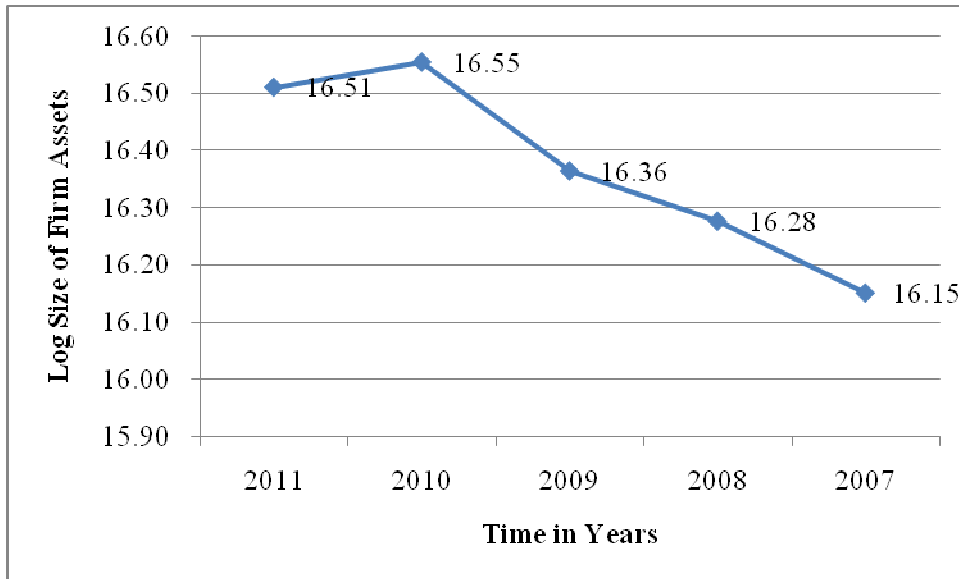


Source: Researcher 2013

4.3.3 Annual Trends in Size of the Firm

The trend in size of the firm presented by figure 4.3 indicate that there has been a steady increase in companies' total assets from year 2007 and a slight decrease in the same in year 2011. This shows that companies represented in the NSE have enough assets to settle liabilities that they will occur in future.

Figure 4.3: Trend Analysis in Size of the Firm

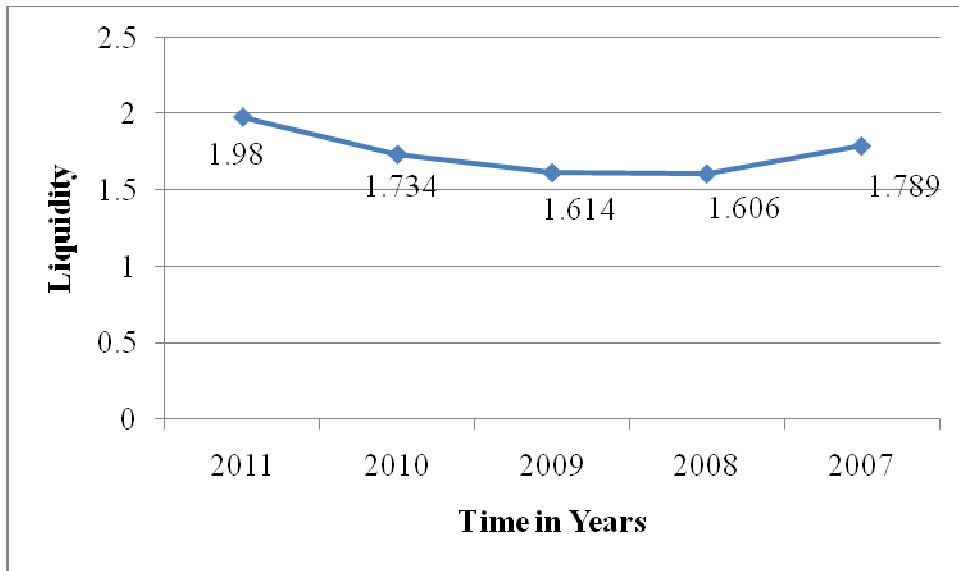


Source: Researcher 2013

4.3.4 Annual Trends in Liquidity of Firms

The trend in liquidity presented by figure 4.4 indicates that there was a slight decrease in the same in year 2008. This was later followed by a slight increase throughout the years until 2011. Increase in liquidity represents an increase in capital thus the above results show that the companies in 2007 and 2008 did not fall in financial difficulties and had enough capital which could be converted to investments.

Figure 4.4: Trend Analysis in Firms Liquidity

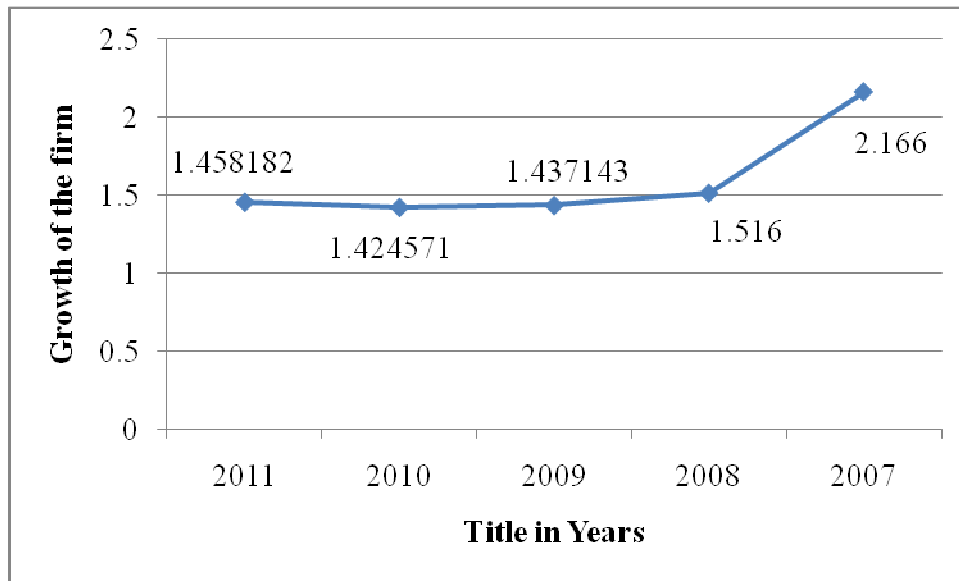


Source: Researcher 2013

4.3.5 Annual Trends in Firms Opportunity

The trend in firm opportunity recorded a decrease in years 2008 and a slight decrease from year 2008 up to 2010. The trend however, recorded a very slight increase in the same in year 2011. This changes and shift of the opportunity of the firm is as a result of changes in the price to book value of stocks which are normal in markets.

Figure 4.5: Trend Analysis in Opportunity of the Firm



Source: Researcher 2013

4.4 Inferential Statistical Analysis

Inferential analysis conducted generated correlation results, model of fitness, and analysis of the variance and regression coefficients.

4.4.1 Pearson's Correlation

Table 4.2 presents Pearson's Bivariate Correlation which shows that capital structure had a strong positive correlation of (0.102) and a probability value of (0.055). This shows that capital structure was statistically significant in explaining corporate governance. Size of firm had a weak positive correlation and a statistical significant value of 0.009. This showed that the size of the firm determined corporate governance of companies in the NSE. Liquidity had a strong positive correlation of 0.092 and an insignificant probability value of 0.603. The opportunity of the firm had a moderate correlation of 0.259 and an insignificant probability value of 0.139. On an

overall basis it can be concluded that the variables of the study had moderate to strong correlations.

Table 4.2: Bivariate Pearson’s Correlation

Variable	Pearson Correlation	Corporate governance	Capital structure	Size of firm	Liquidity	Opportunity
Corporate governance	Pearson Correlation Sig. (2-tailed)					
Capital structure	Pearson Correlation Sig. (2-tailed)	0.102	1			
Size of firm	Pearson Correlation Sig. (2-tailed)	0.443	0.272	1		
Liquidity	Pearson Correlation Sig. (2-tailed)	0.092	0.006	0.03	1	
Growth	Pearson Correlation Sig. (2-tailed)	0.259	-0.432	-0.141	0.09	1
		0.139	0.011	0.427	0.611	

Source: Researcher 2013

4.4.2 Regression Analysis

Table 4.3 below shows the fitness of the regression model in explaining the variables under study. The results indicate that the variables; capital structure, liquidity, size of the

firm, opportunity of the firm were satisfactory in explaining corporate governance. This conclusion is supported by the R square of 0.319. This further means that the independent variables can 31.9 % explain the independent variable (corporate governance).

Table 4.3: Model of Fitness

Indicator	Coefficient
R	565
R Square	0.319
Std. Error of the Estimate	2.5926

Source: Researcher 2013

ANOVA statistics presented on Table 4.4 indicate that the overall model was statistically significant. This was supported by an F statistic of 3.4 and a probability (p) value of 0.021. The reported p value was less than the conventional probability of 0.05 significance level thus its significance in the study.

Table 4.4: Analysis of Variance (ANOVA)

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	91.424	4	22.856	3.4	0.021
Residual	194.925	29	6.722		
Total	286.349	33			

Source: Researcher 2013

Regression of coefficients results in Table 4.5 shows that there is a positive relationship between corporate governance and capital structure, size of the firm, liquidity and firm opportunity whose beta coefficients are 0.072, 0.000, 0.215 and 0.933 respectively. Statistically significant variables in the study were capital structure, size of the firm and opportunity of the firm as they had p values of 0.000, 0.008 and 0.034 which is lower than the probability conventional of 0.05. These results indicate that the level of corporate governance is determined by capital structure, liquidity and growth opportunity of the company. This further means that an increase in unit change of capital structure, liquidity and growth of the company results to a unit change in corporate governance of the company.

Table 4.5: Regression of Coefficients

Variable	Beta	Std. Error	T	Sig.
Constant	18.661	1.524	12.246	0.000
Capitalstructure	0.072	0.089	0.809	0.000
Sizeoffirm	0.000	0.000	2.862	0.008
Liquidity	0.215	0.761	0.282	0.780
Opportunity	0.933	0.418	2.230	0.034

Source: Researcher 2013

4.5 Discussion of Findings

Results from the study indicate that capital structure is an important element in determining corporate governance. The finding support Bhagat and Jefferis (2002) findings that capital structure has become an instrument of corporate governance; not only the mix between debt and equity and their well-known consequences as far as taxes go must be taken into consideration.

Further, Ebaid (2009) study was on the emerging market economy of Egypt found that the selection of capital structure mix has a very weak relationship with the performance. He found that the relation among capital structure has insignificant relationship with performance measured which does not agree with the findings of the study that capital structure is an important element in determining performance of a company. In addition, from the results the rise in capital structure through the years indicates that companies use more debt as a source of financing. These results disagree with those of Zeitun and

Tian (2007) whose study was on the Jordanian firms found the relation between capital structure and debt(short term and long term as insignificant).

The results further show thatthere exists a positive relationship between capital structure and board composition, board skills and CEO duality which sum up to corporate governance in a company. These results support studies by Abor and Biekpe (2007) who explore the link between corporate governance and the capital structure decision of SMEs.The results generally suggest that SMEs pursue lower debt policy with larger board size. Interestingly,SMEs with higher percentage of outside directors, highly qualified board members and one-tier board system rather employ more debt. It is clear, from the study, that corporate governance structures influence the financing decisions of Ghanaian SMEs.

From the results it is possiblethat most firms in Kenya use debt more than equity capital to finance its assets.This findings support the study of Musyoka (2009) whose findings indicated that firms with larger board sizes employ more debt. The results in the liquidity mean show that companies in Kenya, listed in the stock exchange market have the ability to meet their short term obligations when they fall due, this is represented by mean greater than one.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter contains summary key findings of the study based on the results from the data analysis and the objectives of the study. The chapter also includes conclusions, recommendations and area of further studies.

5.2 Summary of Findings

The rise in trend of corporate governance over the years shows that there was a renewed interest in corporate governance from year 2007 hence the rise in trend from that year. The results from the study indicate that there is a significant and positive relationship between corporate governance and capital structure. The rise in capital structure indicated by the trend analysis through the years shows that companies used more debt as a source of financing its assets than equity capital. Pearson's correlation indicated that capital structure had a strong positive relationship to corporate governance meaning that an increase in capital structure also led to an increase in corporate governance.

The results also indicate that most firms in Kenya use debt more than equity capital to finance its assets. The results in the liquidity mean show that companies in Kenya, listed in the stock exchange market have the ability to meet their short term obligations when

they fall due, this is represented by mean greater than one. Increase in liquidity represents an increase in capital thus the trend results show that the companies in 2007 and 2008 did not fall in financial difficulties and had enough capital which could be converted to investments.

Trend changes and shift of the opportunity of the firm was as a result of changes in the price to book value of stocks which are normal in markets. Analysis of variance indicate that the variables; capital structure, liquidity, size of the firm, opportunity of the firm were satisfactory in explaining corporate governance. Pearson's Bivariate correlation established a positive relationship between corporate governance and capital structure, size of the firm, liquidity and firm opportunity with capital structure, size of the firm and opportunity of the firm as the statistically significant variables in the study.

5.3 Conclusions

The findings of the study were that companies in Kenya's Nairobi stock exchange are liquid meaning that they have the ability to meet their short term obligations when they fall due. This, from the results is represented by a mean which is greater than 1. In addition, higher liquidity represents a company's higher margin of safety that the company has to meet its short term liabilities. Conclusions can be made on the rise in liquidity trend through the years as that companies in the NSE have enough capital to sustain their business. The businesses are highly liquid meaning that the assets can be quickly turned into cash for investment or for meeting financial obligations which may arise in future or which fall due.

From the results it also adequate to conclude that most firms in the NSE use more debt or long term liability as a source of financing than equity capital from shareholders. Debt is used as an asset financing source than equity capital because in most cases equity capital requires some ownership of the company where giving up a certain right of the company to someone else is not really welcomed by many business owners. Decisions in the company will have to be made through consulting which may take longer period of time in addressing pressing matters.

Descriptive results on the opportunity of the firm paves way to the conclusion that the companies in the Nairobi Stock Exchange have good return on assets and that the latter is well stated. However in this case investors are advised to be observant of the company's shares as one with a perfect price to book value (greater than 1) has a chance that the asset will fade in its value leaving the investors with poor returns on the same. The size of the firm indicates the ownership or value of the company in terms of its current assets and noncurrent assets. Firms in the NSE present an increased trend throughout years 2007-2008 which means that they have enough assets which can be converted into cash. From the trend analysis the increase in growth of corporate governance in companies in Kenya indicates a good structural level upon which companies make corporate decisions.

5.4 Recommendations

The study provides recommendations to investors who end up making decisions after looking at the opportunity of the firm, which is calculated as price value divided by book value of shares. A greater price to book value that is a value greater than one

indicates good returns to investors. However in this case investors are advised to be observant of the companies' shares as one with a perfect price to book value (greater than 1) has a chance that the asset will future fade in its value leaving the investors with poor returns on the same.

Companies using debt as a source of financing may experience some disadvantage and advantages over the same. High debt levels are not optimal as at times they may lead to losses, financial distress of the company and bankruptcy. Debt financing is also advantageous in its own way as it tends to create leverage on the few resources of the company and there is also a sense of autonomy in ownership of the company, that is ownership of the company, is not shared by the shareholders. Companies as well are able to foresee growth opportunities and to an extent maximization of shareholders wealth using debt

5.5 Limitations of the Study

The study did not focus on all firms listed in the NSE, as it excluded banks and insurance sectors due to their peculiar nature of their capital structure. Determining the corporate governance did not incorporate other variables such as efficiency and social legitimacy. The objective of this study concentrated on the relationship was between capital structure and corporate performance, thus it did not tackle the immediate effect on any changes in corporate governance structure.

5.6 Suggestions for Further Studies

The study concentrated on other firms in the stock exchange with exception of the investment, insurance and financial institution companies. It is with this selection that the study creates a gap that needs to address the determinants of corporate governance in this other industries not analyzed in this study. Further studies can concentrate on other variables that constitute corporate governance such financial efficiency and social legitimacy in companies in Kenya. A Study could also be done on particular economic sectors to analyze the effects of capital structure on corporate governance. Further studies could also include how culture affects corporate governance.

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APPENDICES

Appendix I: List of Sampled Companies

No	Company
1	Kakuzi
2	Rea Vipingo
3	Sasini Tea
4	Access Kenya
5	Car and General
6	CMC Holdings
7	Kenya Airways
8	Marshalls East Africa
9	NationMedia Group
10	Safaricom Ltd
11	Scangroup
12	StandardGroup
13	Tourism Promotion Services
14	Uchumi supermarkets
15	Housing Finance
16	Centum Investment
17	Athi River Mining
18	Bamburi Cement company
19	British American tobacco

20	East African Cables Ltd
21	E.A Portland Cement
22	East Africa Breweries
23	Everready E.A
24	Kenya Oil Company
25	BOC Kenya Ltd
26	KPLC
27	Kengen
28	Total Kenya Ltd
29	Mumias Sugar Kenya
30	Sameer Africa
31	Unga Group Ltd
32	Express Kenya Ltd
33	Kapchorua Tea Co.
34	Williamson Tea Kenya
35	Limuru Tea Company

Appendix II: Mean Score of Corporate Governance

Company	Overall Board size; period 2007-2011	Mean of Board Independence: period 2007-2011	Mean of Board committee: period 2007-2011	Mean of CEO Duality: period; 2007-2011	Average Corporate Governance for period; 2007-2011
Kakuzi	6	4	4	1	18
Rea Vipingo	5	3	4	1	17
Sasini Tea	9	3	4	1	20
Access Kenya	8	3	4	1	19
Car and General	7	3	4	1	17
CMC Holdings	8	4	4.4	1	21
Kenya Airways	11	5	4	1	26
Marshalls East Africa	8	5	4	1	23
NationMedia Group	17	6	4	1	30
Safaricom Ltd	11	5	4	1	24
Scangroup	8	4.8	4	1	20
StandardGroup	6	6	4	1	21
Tourism Promotion Services	11	4	4	1	24
Uchumi supermarkets	6	5	4.8	1	19
Housing Finance	7	5	4.8	1	23
Centum Investment	10	5.8	4.2	1	24
Athi River Mining	7	3.2	4.2	1	19
Bamburi Cement company	8	3	4.2	1	21
British American tobacco	10	3	4.2	1	20
East African Cables Ltd	7	4.6	4.4	1	21

E.A Portland Cement	9	4.6	4.2	1	22
East Africa Breweries	12	6	4.2	1	27
Everready E.A	8	4.6	4.4	1	22
Kenya Oil Company	7	4.4	4	1	20
BOC Kenya Ltd	9	5.4	4.4	1	23
KPLC	10	5.6	4.2	1	25
Kengen	13	5	4.2	1	26
Total Kenya Ltd	8	5	4.6	1	23
Mumias Sugar Kenya	12	5.8	4.2	1	26
Sameer Africa	7	4	4.6	1	20
Unga Group Ltd	8	3	5.2	1	22
Express Kenya Ltd	4	3	5.4	1	17
Kapchorua Tea Co.	6	3	5.2	1	18
Williamson Tea Kenya	7	3	4.6	1	21
Limuru Tea Company	3	3.5	4.6	1	12.1

Appendix III: Mean Score of Independent Variables

Variable	Mean	Std. Deviation
Capital Structure		
2011	6.926	8.0668
2010	6.217	7.13
2009	4.737	5.007
2008	4.529	5.0937
2007	4.249	5.6132

Size of firm		
2011	16.51	1.53
2010	16.55	1.52
2009	16.36	1.54
2008	16.28	1.56
2007	16.15	1.57
Liquidity		
2011	1.98	2.9665
2010	1.734	1.3377
2009	1.614	0.8132
2008	1.606	0.9107
2007	1.789	1.1132
Opportunity		
2011	1.458182	2.9343957
2010	1.424571	1.2766047
2009	1.437143	1.392405
2008	1.516	1.3478528
2007	2.166	1.7929621
Corporate governance		
2011	21.74	3.107
2010	21.74	2.968
2009	21.53	3.067
2008	21.68	2.972
2007	21.24	3.016