

**THE EFFECT OF MANAGER CHARACTERISTICS ON THE
CAPITAL STRUCTURES OF FIRMS LISTED AT THE NAIROBI
SECURITIES EXCHANGE**

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DECLARATION

This Research Project is my original work and has not been presented in any other University.

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

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DEDICATION

The research project is dedicated to my lovely wife Mrs Juliet Maithya, My daughters Trezer and Susan for their understanding and moral support throughout my studies.

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ABSTRACT

Managers are at the helm of leadership in any organization. Their values, behaviors skills, and all aspects related to temperament and intellectual ability will ultimately influence the approach they will take in decision making. One of the important indicators of an organization performance is its capital structure. Different managers have different characteristics which contribute to firm's financial option. This study therefore sought to establish the effect of manager characteristics on capital structure of firms listed in the Nairobi securities exchange. The study adopted across sectional and explanatory study design. The study targeted the 61 companies listed in the Nairobi securities exchange. Secondary data was collected from different organizations from the years 2008-2013. Descriptive statistics was used to taste the normality of the data collected. Data analysis was done using the statistical package for social sciences. The study concluded that there was a significant relationship between the age of the CEOs and the performance of the firm. The study concluded that the CEOs need to be of a mature age as they are tasked with making important decisions. The study also concluded that there was no significant relationship between the gender of the respondents and the performance of the firm although the majority of the CEOs are male. The study also concluded that there was no significant between the level of education of the CEOs and the firms listed at the NSE. The study concluded that the majority of the CEOs at the firms listed at the NSE have master's degrees. The study recommended that more female CEOs be appointed as it will promote gender equality in management. The study also recommended that organizations facilitate for their CEOs to attend trainings that will equip them with relevant skills in management.

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LIST OF ABBREVIATIONS

| | |
|---------------|--------------------------------|
| CEO – | Chief Executive Officer |
| CMA- | Capital Markets Authority |
| EPS - | Earnings Per Share |
| MIMS - | Main Investment Market Segment |
| NSE – | Nairobi Securities Exchange |
| USD – | United States Dollar |

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Manager characteristic is the aspect of values, behaviours and skills, in addition to other traits that are related to temperament and intellectual ability. According to Tarus and Ayabei (2014) managers have different characteristics such as age, gender diversity which contribute to firms' financing option. Therefore it is crucial to examine whether having managers characteristics would enhance or weaken capital structure. Researchers in accounting, economics and management agree that managers trait are critical in exercising strategic control, tougher monitoring and financial decision making (such as capital structure) in firms (Gulamhussen and Santa, 2011).

The Capital structure of a company is the combination of debt, equity and other sources of finance that it uses for its long term financing. The key division in capital structure is between debt and equity. This separation of funding into either debt or equity can be sometimes complicated by the existence of other types of capital that blur the line between debt and equity. This study adopts the definition that capital structure of a company is the combination of debt and equity a firm uses to finance its long term assets. One of the important decisions made by board of directors is capital structure. Capital structure has long been linked to the firm's profitability and performance (Abor, 2005; Arbiyan and Safari, 2009; Chakraborty, 2010).

The study was built on the following theories; The "Upper echelons" literature (Hambrick & Mason, 1984) which attempts to link the attributes of the firm's leaders with strategic choices and organizational outcomes based on innovation performance. Agency theory

which posits that capital structure is determined by agency costs. The trade-off theory which addresses the issue of bankruptcy cost. It states that there is a tax advantage to financing with debt (tax benefit) and that there is a cost of financing with debt (bankruptcy and financial distress cost of debt) Jensen and Meckling (1976).

The study was carried out on firms listed in the Nairobi Securities Exchange. This is because these firms are properly regulated with all the necessary documentation and therefore the findings will be invaluable to all the firms in Kenya as it will provide a benchmark on the effect of manager characteristics on capital structure. These firms such as Kakuzi, East African Breweries, Bamburi cement, Athi River mining, Safaricom, Nation and Standard media groups and others are good examples of firms listed in the NSE and trade their shares frequently therefore a researcher would get all the information they need easily.

1.1.1 Manager Characteristics

The concept of managers characteristic is the aspects of values, behaviours and skills, in addition to other traits that are related to temperament and intellectual ability. The qualities necessary for management can be seen as a balance, with integrity as the strong, solid base, with respect and responsibility balanced on either side (John, 2006). James (2010) defines characteristics of managers and the influence of these characteristics on organizational change and performance such as managerial age, education, experience, tenure and functional background. Malmendier at al., (2010) show that measurable managerial characteristics have significant explanatory power for corporate financing decisions beyond traditional capital-structure determinants. There are two classifications of managers

characteristics including observable and non observable characteristics. This study will concentrate on observable characteristics.

These characteristics of managers can be measured quantitatively. For example the managerial age can be measured through grouping them into age brackets. The education can be measured according to educational level of managers. Experience of managers can be bracket according to the number of years the individual has had in the work place using an interval. The tenure and functional background of managers can also be measured quantitatively according to the number of years they have been at the helm of leadership. Other manager characteristics may include the leadership styles of managers; social networks and the level of collaboration. Gender also plays a big role in determining the capital structure of a company.

Verner (2006) stated that women directors may better understand particular market condition than men, which brings more creativity and quality to decision making thus may affect the capital structure of firms. Larger gender diversity may generate a better public image of the firm and improve firm performance. Another observable characteristic likely to affect the capital structure of firms include ethnic diversity. Hambrick, Cho and Chen (1996) discussed advantages of having ethnic diversity in the management of an organization. Ethnic diversity broadens knowledge; idea and experience through the range of information resources of different cultural background among the management team hence diversify financing sources. An organization with high level of cultural heterogeneity in management is able to share ideas and reach ultimate decision based on

the various thinking and thus, will improve management performance through a common consensus among the multiracial group of managers.

1.1.2 Capital Structure

Capital structure is described as ratio of debt to equity. According to Ajao and Ema, (2012) debt comprises of long term loans such as debenture and equity which includes paid up share capital, share premium, reserves, and retained earnings. Hence, a firm can use debts and/or equity to finance its investment. Apparently, capital structure has been argued to be important management decision since it highly affect the equity return and risks related to owner as well as the market value of the shares. Thus, deciding how to finance a firm is very important not just to the managers of a firm but also to fund providers (Ajao & Ema, 2012).

Making a wrong mix of finances employed in the firm might seriously affect the performance and survival of the business enterprise. It is therefore incumbent on management of a company to determine an optimal capital structure which will ensure that their business continues as going concern. Most economies in developing countries are uncertain, thus, capital structure decision are very important since the existence of macro environment factors such as high and soaring interest rates, volatility in economic and political situations are important factors that determines the capital structure of firms (Ajao & Ema, 2012). Capital structure of a firm will be measured by short term debt divided by the total assets or long-term debt divided by total assets (Martin, 1993) and total debt divided by total assets.

1.1.3 Relationship between the Managerial Characteristics and Capital Structure

Gender differences in attitudes towards risk and in risk related behaviour and their effect on capital structure have long been studied in the economics and psychology literatures (Francoeur et al., 2008). More recently, there has been a significant increase of women in corporate executive offices. With this increase, researchers have started to investigate the impact of gender on various corporate decisions, such as capital structure decisions (Huang and Kisgen, 2008). More recent studies begin to investigate whether gender of corporate executives or directors affect corporate decision-making.

Extant literature on individual risk-taking behaviour shows that demographic and socioeconomic factors influence individual risk tolerance, e.g., age of the individual. That is, an individual's ability and willingness to bear risk could be shaped by his or her age thus influencing his capital structure decision making skills (Leland, 2001). The structure of responsibility and power of decision making in publicly traded companies is hierarchical according to the age of top executives. Executives in these firms work in a hierarchy with the CEO in most cases an older individual at the top. As a result the CEO is the most powerful individual on the board regarding capital structure decision making (Wang, et al., 2001). Niederle & Vesterlund (2007) examine whether age difference affects the capital structure decisions of managers. They conclude that younger managers more frequently select to operate in more competitive environment than older do. However, the authors remark that this difference exists not due to different risk aversion, but because young managers are more overconfident and there are age differences in preferences for

performance in a competitive environment. According to Morton, (2002) there is a significant relationship between capital structure and age plus experience of top employees. Firms with older and qualified board membership have low leverage or debt ratio compared to young and less qualified.

Several recent studies have focused mainly on the effects of different managerial traits on capital structure decision making behaviour. For example, well-educated and overconfident managers may predict a pecking order of financing decisions (Baker *et al.*, 2004), managers with growth perception bias overestimate the growth of future earnings generated by their company and hence view external finance as unduly costly (Hackbarth, 2007), Educated CEOs tend to issue new equity whenever the debt-to-equity ratio is lower relative to the sector's ratio; CEOs who are educated are open to new experiences and avoid traditional, available, funding sources. They consider as more important the exploitation of possible advantages rather than avoiding possible negative consequences and they tend to issue new equity whenever the stock price is relatively high. (Graham *et al* 2001).

1.1.4 Nairobi Securities Exchange

The Nairobi Securities Exchange (NSE) was constituted as Nairobi Stock Exchange in 1954 as a voluntary association of stockbrokers in the European community registered under the Societies Act (RoK, 2013). As a capital market institution, the Stock Exchange plays an important role in the process of economic development. A number of brokers are licensed to operate. The Nairobi Securities Exchange comprises 61 listed companies with a

daily trading volume of over USD 5 million and a total market capitalization of approximately USD 15 billion (CMA, 2013).

The NSE, like many other emerging markets, suffers from the lack of liquidity in the market. In Kenya, The government and the private sector have invested heavily in creating an enabling environment for doing business and indeed, some companies have performed exceedingly well as a result. Several companies, however, are experiencing declining performance and some have even been delisted from the NSE in the last decade. Momentous efforts to revive the ailing and liquidating companies have focused on financial decisions. However managers and practitioners still lack adequate guidance for attaining optimal financing decisions (Kibet, Tenei & Mutwol, 2011) yet many of the problems experienced by the companies put under statutory management were largely attributed to financing (Chebii, Kipchumba & Wasike, 2011).

1.2 Research Problem

A growing body of empirical evidence suggests that manager-specific characteristics significantly influence firms' financing decisions (Graham and Harvey, 2001, Bertrand and Schular, 2003). Extant literature shows that powerful managers directly influence capital structure decisions of the firm (Daily and Johnson, 1997) and might exert their power by opposing the board (Haynes and Hillman, 2010). Machold looked at taxes, size of firm, business risk, and asset tangibility as determinants of Capital Structure and omitted Manager Characteristics which my study is looking at.

Companies in the same industry run by management of different characteristics; who employ different capital structure models experience different results. 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 stewardship and management is attempting to find the perfect capital structure in terms of risk / reward payoff for shareholders. Management styles range from aggressive to conservative. The more conservative a management's approach is, the less inclined it is to use debt to increase profits. An aggressive management may try to grow the firm quickly, using significant amounts of debt to ramp up the growth of the company's earnings per share (EPS).

Despite the recognized importance of the effects of these personality traits on corporate performance and behaviour and resulting financial policies, knowledge of the influence of a global, multi-facet, personality dimension, which may provide a comprehensive and compelling rubric for assessment and description of human (e.g., CEOs) personality, on behavioural outcomes, and hence their impact on capital structure decisions, is limited. Most research in finance has maintained a primarily analytical and descriptive focus and studied the consequences of a priori heterogeneous CEO behaviour for single personality (e.g., risk-aversion) traits on corporate finance decisions.

According to the studies done Sinan (2010) on how firm characteristics affect capital structure the study looks at various firm level characteristics such as, profitability, size, growth opportunities, asset tangibility, non-debt tax shield, volatility and liquidity on capital structure; According to a study conducted by Sayilgan 2002 on the Firm-Specific determinants of corporate capital structure they looked at size, profitability and growth opportunities in plant, property and equipment, growth opportunities in total assets, non-

debt tax shields and tangibility. Also in the African scene Turkson 2013 looks at how organization's profitability affects capital structure of an organization. Locally, Ondiek (2010) studied relationship between capital structure and financial performance of firms listed at the Nairobi Securities Exchange. This study did not review managerial characteristics. Otieno (2012) studied capital structure and performance at Nairobi Securities Exchange. From the review of studies previously done here, it can be seen that there is no study that has been conducted on the effects of manager characteristics on the capital structure of firms listed in Nairobi Securities Exchange. This study therefore sought to fill this research gap by answering one research question: How do Manager Characteristics affect Capital Structure?

1.3 Research objective

To establish the effect of manager characteristics on the capital structure of firms listed in Nairobi Securities Exchange.

1.4 Value of the Study

The benefit of the study goes to the firms' management to use the outcome in improving on optimal capital structure through managers characteristics concept and provide information to firms operating in Kenyan business environment and investors on how managers characteristics operates thus enhancing capital structure decision which benefits shareholders value in the firm.

The study also provides information to scholars pursuing, research and students in this field showing the gaps for further studies in this area. From the study scholars would be

able to evaluate the effect of managers' characteristics on capital structure. The study also helps in policy building to govern institutions. The study would go a long way in helping policy makers gain a deeper understanding on the effect of managers characteristics on capital structure hence come up with policies that would help firms improve their performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter details literature of past studies done in the area of manager characteristics and its effect on capital structure. The chapter also entail the theories of the study.

2.2 Theoretical Review

In carrying out the research on the impact of managers' character on the capital structure; the researcher employed trade-off theory, agency theory and upper Echelons theory.

2.2.1 Trade off Theory

The trade-off theory of capital structure argues that capital structure is determined by the trade-off between the benefits of debt tax shields and the costs of financial distress. A number of studies examine the quantitative effects of the trade-off between taxes and financial distress costs in dynamic, structural models in which managers are assumed to behave in the interests of shareholders (Fischer *et al* 1989), Leland and Toft (1996), Goldstein et al. (2001), Hennessy and Whited (2005), Strebulaev (2007)).

Because they do not incorporate managerial discretion, manager characteristics have no effect on capital structure in these models. We contribute to this literature by analysing the effects of managerial discretion in a dynamic model that also incorporates taxes and bankruptcy costs. Apart from reconciling growing evidence on the effects of manager characteristics on financing decisions (Berger et al. (1997), this study), our analysis also sheds light on the relative importance of taxes, bankruptcy costs, and manager-shareholder agency conflicts in the determination of capital structure. Though widely utilized in

corporate finance, the trade-off theory has been criticized on the basis that it is not adequately descriptive of observed capital structures. The fact that existing trade-off models fail to address debt structure leaves the theory open to criticism.

Since this theory argues that capital structure is determined by the trade-off between the benefits of debt tax shields and the costs of financial distress, the theory will help in explaining how a manager's character comes into play in determining what trade-off to choose.

2.2.2 Agency Theory

The agency theory of capital structure is based on the premise that agency conflicts between managers and outside investors are a key determinant of capital structure (Myers, 2001). DeMarzo and Sannikov (2006) and DeMarzo and Fishman (2007) investigate the effects of agency conflicts on capital structure in dynamic frameworks with risk-neutral agents and complete contracting.

Berk et al. (2006) analyse the effects of managerial risk aversion on capital structure in a framework with one-sided commitment. We complement their study by developing a framework with moral hazard effort provision, *incentive* compensation, and *risky* long-term debt. We implement the manager's contract through financial securities, which leads to a dynamic capital structure and implications for the effects of manager and firm characteristics on long-term debt and short-term debt.

Subramanian (2008) develops a continuous-time agency model to show how a risk-averse manager's discretion in dynamic financing, effort and project choices affects capital structure. He (2011) studies the effects of manager shareholder agency conflicts on capital

structure and finds that the effects of debt overhang on managerial incentives lowers the optimal leverage.

Agency theory is somewhat controversial, particularly in the literature on financial ethics. For example, Horrigan claims that the agency theory.... “Raises the ethical danger of creating a very contentious, litigious view of financial relationship pitting agents against principals and principles against principles as perpetual adversaries” Business world is an adversaries place is valid but this hardly originated with agency theory. The world of business has competition at it very core, competition exist not only among firms but within firms, as employees compete for recognition, promotions and salary increases agency theory acknowledge this world but did not create it .In this study, the agency theory will help in explaining how a manager’s character comes into play in managing conflicts between managers and outside investors which are a key determinant of capital structure of an organization.

2.2.3 Upper Echelons Theory

Upper echelons theory of demographic diversity of the top management team builds on the idea of the dominant coalition (Cyert and March, 1963) to propose that executives influence organization innovation performance through the decisions they make (Hambrick and Mason,1984). Upper echelon theory suggests that executives will make decisions that are consistent with their cognitive base (Hambrick and Mason, 1984) or executive orientation (Finkelstein and Hambrick, 1996), which consists of two elements: psychological characteristics (including values, cognitive models, and other personality factors) and observable experiences. A fundamental principle of upper echelons theory is that observable experiences (i.e, demographic measures) are systematically related to the

psychological and cognitive elements of executive orientation hence organization innovation performance. Upper echelons research employs the use of observable demographic characteristics as proxy measures of executive orientation.

Executive orientation works through a perceptual or filtering process that results in what is called managerial perceptions (Hambrick and Mason, 1984) or construed reality (Finklestein and Hambrick, 1996). In this study, this theory will try to show how the manager's character since they occupy the Upper echelons sector will come into play in decision making concerning the funding of business hence the capital structure.

2.3 Determinants of Capital Structure

The capital structure of an organization is determined by a number of factors within or outside the organization. Some of these factors are discussed as follows;

2.3.1 Size of the Firm

Firm size has been empirically found to be strongly positively related to capital structure. Larger firms are more diversified and hence have lower variance of earnings, making them able to tolerate high debt ratios (Wald, 1999). Smaller firms, on the other hand, may find it relatively more costly to resolve information asymmetries with lenders, thus, may present lower debt ratios (Castanias, 1983). Lenders to larger firms are more likely to get repaid than lenders to smaller firms, reducing the agency costs associated with debt. Therefore, larger firms will have higher debts. Another explanation for smaller firms having lower debt ratios is if the relative bankruptcy costs are an inverse function of firm size (Titman and Wessels, 1988). Empirical evidence on the relationship between size and capital structure supports a positive relationship. Several works show a positive relationship

between firm size and leverage (see Barclay and Smith, 1996; Friend and Lang, 1988; Barton et al., 1989; MacKie-Mason, 1990; Kim et al., 1998; Al-Sakran, 2001, Hovakimian et al., 2004).

From the theoretical point of view, the effect of size on leverage is ambiguous. As Rajan and Zingales (1995, p. 1451) claim: “Larger firms tend to be more diversified and fail less often, so size may be an inverse proxy for the probability of bankruptcy. If so, size should have a positive impact on the supply debt. However, size may also be a proxy for the information outside investors have, which should increase their preference for equity relative to debt.” Also empirical studies do not provide us with clear information. Some authors find a positive relation between size and leverage, for example Huang and Song (2002), Rajan and Zingales (1995) and Friend and Lang (1988). On the other hand, some studies report a negative relation, for example (Kester, 1986), (Kim – Sorensen, 1986) and (Titman – Wessels, 1988).

2.3.2 Profitability

There are no consistent theoretical predictions on the effects of profitability on leverage. From the point of view of the trade-off theory, more profitable companies should have higher leverage because they have more income to shield from taxes. The free cash-flow theory would suggest that more profitable companies should use more debt in order to discipline managers, to induce them to pay out cash instead of spending money on inefficient projects. However, from the point of view of the pecking-order theory, firms prefer internal financing to external. So more profitable companies have a lower need for

external financing and therefore should have lower leverage. Most empirical studies observe a negative relationship between leverage and profitability.

Profitability is proxied by return on assets (defined as earnings before interest and taxes divided by total assets). The relationship between firm profitability and capital structure can be explained by the pecking order theory (POT) discussed above, which holds that firms prefer internal sources of finance to external sources. The order of the preference is from the one that is least sensitive (and least risky) to the one that is most sensitive (and most risky) that arise because of asymmetric information between corporate insiders and less well informed market participants (Myers, 1984). By this token, profitable firms with access to retained profits can rely on them as opposed to depending on outside sources (debt). Murinde et al. (2004) observe that retentions are the principal source of finance. Titman and Wessels (1988) and Barton et al. (1989) agree that firms with high profit rates, all things being equal, would maintain relatively lower debt ratios since they are able to generate such funds from internal sources

2.3.3 Firm growth

Growth is likely to place a greater demand on internally generated funds and push the firm into borrowing (Hall et al., 2004). According to Marsh (1982), firms with high growth will capture relatively higher debt ratios. In the case of small firms with more concentrated ownership, it is expected that high growth firms will require more external financing and should display higher leverage (Heshmati, 2001). Aryeetey et al. (1994) maintain that growing SMEs appear more likely to use external finance although it is difficult to determine whether finance induces growth or the opposite (or both). As enterprises grow

through different stages, i.e., micro, small, medium and large scale, they are also expected to shift financing sources. They are first expected to move from internal sources to external sources (Aryeetey, 1998). There is also a relationship between the degree of previous growth and future growth. Michaelas et al. (1999) argue that future opportunities will be positively related to leverage, in particular short term leverage. They argue that the agency problem and consequently the cost of financing are reduced if the firm issues short-term debt rather than long-term debt.

Myers (1977), however, holds the view that firms with growth opportunities will have a smaller proportion of debt in their capital structure. This is because conflicts of interest between debt and equity holders are especially serious for assets that give the firm the option to undertake such growth opportunities in the future. He argues further that growth opportunities can produce moral hazard situations and small scale entrepreneurs have an incentive to take risks to grow. The benefits of this growth, if realized, will not be enjoyed by lenders who will only recover the amount of their loans, resulting in a clear agency problem. This will be reflected in increased costs of long-term debt that can be mitigated by the use of short- term debt.

2.3.4 Asset structure

The asset structure of a firm plays a significant role in determining its capital structure. The degree to which the firm's assets are tangible should result in the firm having greater liquidation value (Titman and Wessels, 1988; Harris and Raviv, 1991). Bradley et al. (1984) assert that firms that invest heavily in tangible assets also have higher financial leverage since they borrow at lower interest rates if their debt is secured with such assets. It

is believed that debt may be more readily used if there are durable assets to serve as collateral (Wedig et al., 1988). By pledging the firm's assets as collateral, the costs associated with adverse selection and moral hazards are reduced. This will result in firms with assets that have greater liquidation value having relatively easier access to finance at lower cost, consequently leading to higher debt or outside financing in their capital structure. In the case of small firms, the concession of collateral reduces the under-investment problem in the firms by increasing the probability of obtaining credit – functioning also as a management instrument in conflicts between entrepreneur and financiers, since the degree of the entrepreneurs' involvement in sharing business risk, by granting personal collateral, is clearly evident. It is further suggested that bank financing will depend upon whether the lending can be secured by tangible assets (Storey 1994; Berger and Udell 1998).

2.3.5 Age of the firm

Age of the firm is a standard measure of reputation in capital structure models. As a firm continues longer in business, it establishes itself as an ongoing business and therefore increases its capacity to take on more debt; hence age is positively related to debt. Before granting a loan, banks tend to evaluate the creditworthiness of entrepreneurs as these are generally believed to pin high hopes on very risky projects promising high profitability rates. In particular, when it comes to highly indebted companies, they are essentially gambling their creditors' money. If the investment is profitable, shareholders will collect a significant share of the earnings, but if the project fails, then the creditors have to bear the consequences (Myers, 1977).

To overcome problems associated with the evaluation of creditworthiness, Diamond (1989) suggests the use of firm reputation. He takes reputation to mean the good name a firm has built up over the years; the name is recognized by the market, which has observed the firm's ability to meet its obligations in a timely manner. Directors concerned with a firm's reputation tend to act more prudently and avoid riskier projects in favour of safer projects, even when the latter have not been approved by shareholders, thus reducing debt agency costs (by reducing the "temptation" to gamble at creditors' cost).

It is important to note the extension of firm risk to the personal area of the businessperson (given the unlimited liability of entrepreneurs) to be a way of managing the agency costs resulting from cases of more opportunistic behaviour. Given the fragmentation of information, and the high costs of control and evaluation, the firm's and the entrepreneur's reputations become a valuable asset in the management of relations between the principal (investor) and the agent (businessperson) (Landström, 1993). Petersen and Rajan (1994) found that older firms should have higher debt ratios since they should be higher quality firms. Hall et al. (2004) agreed that age is positively related to long-term debt but negatively related to short-term debt. Esperança et al. (2003), however, found that age is negatively related to both long-term and short-term debt.

2.3.6 Tax Rate

According to the trade-off theory, a company with a higher tax rate should use more debt and therefore should have higher leverage, because it has more income to shield from taxes. However, for example Fama and French (1998,) declare that debt has no net tax

benefits. As MacKie-Mason (1990,p. 1471) claims: "Nearly everyone believes taxes must be important to financing decision, but little support has been found in empirical analysis."

Cordes and Shefferin (1983) examined cross-sectional differences in the effective tax rates caused by tax carry-backs and carry-forwards, foreign tax credits, investment tax credits, the alternate tax on capital gains, and the minimum tax. "They found significant differences across industries with the highest effective tax rate for tobacco manufacturing (45%) and the lowest rate (16%) for transportation and agriculture" (Copeland, 1988:518).

This supports the above theory. In 1984, Bradley, Jarrell, and Kim took the ratio of depreciation plus investment tax credits to earnings as a proxy for non-debt tax shields. By regressing leverage against this variable, it was found significantly positive, indicating that debt does not act as a tax shield (Copeland, 1988:518). Also, Long and Maliz (1985) added several additional variables to those used by Bradley et al. By estimating a similar regression, they found non-debt tax shields to be negatively related to leverage (Copeland, 1988: 519).

2.4 Empirical Review

According to a study carried by kdal, Sinan (2010) on how Firm Characteristics Affect Capital Structure; This study tried to determine the influence of various firm level characteristics such as, profitability, size, growth opportunities, asset tangibility, non-debt tax shield, volatility and liquidity on capital structure. Employing the cross-sectional data methodology, the researcher examines the capital structure determinants of 202 companies from FTSE 250 for the time period of 2002 – 2009. Seven variables multiple regression models are used to estimate the influence of firm level attributes on capital structure and capital structure is measured simultaneously by the ratios of total debt, long-term debt and

short-term debt at both book value and market value of equity. The results obtained from four different regression models show that profitability and liquidity are negatively and significantly related to leverage. Also asset tangibility has a positive relationship with leverage, which is significant. Moreover the researcher finds that total debt ratio at market value of equity is the most important dependent variable as a proxy of capital structure, followed by long-term debt ratio at market value of equity.

Shukeri, Shin and Shaari (2012) sought to establish whether board of director's characteristics affected firm performance using evidence from Malaysian public listed companies. The study used six boards of directors' characteristics, including managerial ownership, board size, board independence, CEO duality, gender diversity and ethnic diversity. Return on Equity (ROE) was used as a measurement for firm financial performance. There were 300 Malaysian public listed companies being randomly selected from each sector. The results showed that board size and ethnic diversity had positive relationship with ROE while board independence had negative relationship. There was no significant relationship between managerial ownership, CEO duality and gender diversity on firm performance.

Pahuja and Sahi (2012) studied factors affecting capital structure decisions using empirical evidence from selected Indian firms. The sample comprised of 30 companies comprising Sensex and the data for a period of three years i.e. 2008 to 2010. In order to derive the existing relationship between dependent and set of independent variables taken in the study a typical procedure of Ordinary Least Square (OLS) regressions is undertaken. Capital Structure is dependent variable and is associated with number of independent variables to study what actually determines the capital structure of an organization. The correlation

results showed negative correlation between profitability, findings being consistent with Rajan and Zingales (1995). The Pearson correlations of debt equity ratio with size, profitability and tangibility are negative but statistically insignificant.

Bennedsen, Pérez-González and Wolfenzon (2010) reviewed whether Chief Executive Officers matters in organizational performance. They specifically reviewed as to whether they meaningfully affected firm performance. The objective of this paper is to investigate whether CEOs affect firm performance using variation in the firms' exposure to their CEOs resulting from the managers' own deaths and from the deaths of their immediate family members. Specifically, we study the effects of the deaths of spouses, children, parents, and parents-in-law. The main advantages of this rather painful empirical strategy are two. First, these shocks presumably affect managers' ability to perform their jobs, either directly, through their own death, or indirectly, by grief or the additional time they spend with their families, which would limit their ability to execute their professional roles. Second, it is reasonable to expect that, personal shocks to managers, particularly those arising from the deaths of family members unaffiliated with the firm, do not affect firms' investment opportunities, except through the decrease in the CEO's effectiveness that results from personal grief or additional time spent with the family. They show that CEOs' own deaths and deaths in their families lead to economically and statistically large declines in firm performance as measured by firm profitability, investment, and sales growth.

According to a study conducted by Guven Sayilgan 2002 on The Firm-Specific Determinants of Corporate Capital Structure with the purpose of carrying out empirical testing, using dynamic panel data methodology, to analyse the impact of firm specific

characteristics on the corporate capital structure decisions of Turkish firms. The sample covers 123 Turkish manufacturing firms listed on the Istanbul Stock Exchange (ISE) and the analysis is based on the year-end observations of ten consecutive years running from 1993-2002. In this study, the panel data methodology is used and six variables - size, profitability and growth opportunities in plant, property and equipment, growth opportunities in total assets, non-debt tax shields and tangibility - are analysed as the firm specific determinants of the corporate capital structure. This work contributes to the existing body of literature in the way that all of the independent variables of the study are significant determinants for the capital structure decisions of Turkish firms. Our analysis shows that variables of size and growth opportunity in total assets reveal a positive association with the leverage ratio, however, profitability, growth opportunities in plant, property and equipment, non-debt tax shields and tangibility reveal inverse relation with debt level.

In the African scene, studies done by Anthony Hercules Turkson from cape cost polytechnic in Ghana in 2013; the study that adopted the panel data methodology to determine the effect of profitability on the capital structure showed that an organization's profitability affected the capital structure of the organization. The study was conducted by examining the financial statements of the firms and looking at the ratio estimates of debt and assets which also revealed the profitability.

Berger and Bonaccorsi (2006) using data on commercial banks in the USA showed that higher leverage or lower equity capital ratio is related to higher profit efficiency, and Abor (2005) on capital structure and profitability of SMEs in Ghana, showed that short-term debt ratio is positively correlated with return on equity.

According to a study conducted by Edward Njenga in 2013 on capital structure of listed firms in Kenya: the case of non-financial firms; This study investigates the capital structure of listed firms in Kenya with an intention of identifying the factors that determine their capital structure. In particular, the study seeks to determine both firm specific and macroeconomic factors as well as to assess the relevance of capital structure theories in Kenya. The study is conducted based on a sample of 29 non-financial firms listed on the Nairobi Securities Exchange during the period 2004-2012 using panel data estimation technique. Both the fixed effects and random effects models are estimated and the results reveal that firm specific factors affecting the capital structure of listed firms in Kenya are asset tangibility, firm's profitability, size of the firm, firm's growth opportunities and finally liquidity of a firm's assets while the macroeconomic factors are economic growth and corporate tax rate. It is further established that the behaviour of Kenyan firms can best be explained by pecking order theory which is an indicator of asymmetry in the capital market.

An Empirical Analysis of Macro-Economic Influences on Corporate Capital Structure of Listed Companies in Kenya by Muthama, Mbaluka and Kalunda in 2011. The study analyzes the influence of the macro economic factors on the capital structure of selected listed companies in Kenya. The study through analytical and descriptive research design aimed at determining the magnitude and the direction of the relationship between selected macroeconomic variables on corporate capital structure of listed companies in Kenya. An econometric model of multiple linear regressions was used where leverage (debt ratios) was regressed against GDP growth rate, inflation and interest rate. The study revealed that indeed macro-economic factors have pronounced influence on the capital structure of the

listed companies. GDP growth rate was found to have a positive influence on long term debt ratio and a negative influence on total debt ratio and short term debt ratio. Inflation on the other hand had a negative influence on the short term debts while interest rates as measured by the treasury bills have a positive influence on the long term debt ratio and total debt ratio and a negative influence on the short term debt ratio.

2.5 Summary of Literature Review

This study reviewed the trade-off theory that argues capital structure is determined by the trade-off between the benefits of debt tax shields and the costs of financial distress; it also reviewed Agency theory that argues that structure is based on the premise that agency conflicts between managers and outside investors are a key determinant of capital structure, and lastly the upper echelons theory that says demographic diversity of the top management team builds on the idea of the dominant coalition to propose that executives influence organization innovation performance through the decisions they make. The section also looks at the determinants of capital structure such as size, profitability, tangibility, growth opportunities and tax of the organization or firm.

Finally the section looks at different studies on different areas of the world such a study carried by kdal, Sinan (2010) on how Firm Characteristics Affect Capital Structure, a study conducted by GüvenSayılgan on The Firm-Specific Determinants of Corporate Capital Structure and studies done by Anthony Hercules Turkson from cape cost polytechnic in Ghana in 2013; to determine the effect of profitability on the capital structure.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology sets out various stages and phases that were followed in completing the study. This chapter discusses the methods that were used in the collection and analysis of data and how data presentation has been done. It also discusses how the objective of the study was met. It specifically covers the research design, study population, data collection, and data analysis and presentation.

3.2 Research Design

This study adopted a cross-sectional and explanatory study design. Cross-sectional studies (also known as cross-sectional analyses, transversal studies, prevalence study) are one type of observational study that involves data collection from a population, or a representative subset, at one specific point in time. Cross-sectional studies involve data collected at a defined time. They are often used to assess the prevalence of acute or chronic conditions, or to answer questions about the causes of disease or the results of intervention. They may also be described as censuses.

Cross-sectional studies may involve special data collection, including questions about the past, but they often rely on data originally collected for other purposes. This study sought to establish managers' characteristics and its influence on capital structure. The study was both longitudinal and cross sectional since it reviewed the performance of several companies over a period of years. Quantitative data relating to managers tenure, managers'

age, manager education, managers gender of Kenyan firms listed in the securities exchange was collected over the past six (6) years from 2008 to 2013 annual reports.

3.3 The Population

The total population for the study comprised of 61 companies (Attached Appendix 2). The study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2008 to 2013. An analysis on the annual reports of listed companies (NSE's, Main Investment Market segment (MIMS) and Alternative Investment Market Segment (AIMS) companies) in the NSE was done. These companies must have been trading actively and consistently (not suspended) for at least six (6) years. Firms in the study only included companies in MIMS and AIMS. The MIMS has 48 and the AIMS 13 listed companies.

3.4 Data Collection

The study collected secondary data. The manager characteristics variables were collected by use of secondary data capture form (Attached appendix 1). This form provided information on managerial characteristics of managers from different firms given that my data is longitudinal in nature (2008-2013).

The secondary data for the study was also collected from annual reports of firms listed on the NSE from 2008 to 2013 which was obtained from www.africanfinancials.com and www.nse.co.ke, Company data was collected on each of these variables. Data on the independent variables and dependent variable was collected from the listed companies' relevant journals and firms Regulatory Bodies like Capital Markets Authority.

3.5 Data Analysis

Statistical analysis; descriptive, correlation, multiple regression and analysis of variance was used to address the objectives of the study. Descriptive statistics was used to test the normality of data collected since the data was quantitative and the aim was to establish the degree of association and cause effect relationship between the variables.

Multiple Regressions was used because of its ability to use multiple independent variables to estimate their effect on a single dependent variable. This would predict a single dependent variable from any number of independent variables entered into regression equations. Blalock (1999, p.45) states that “if there are a large number of interval-scale variables that are interrelated, it is possible to predict any particular variable from any combination of the others’. The study thus used the technique to examine the effect of manager characteristics on capital structure. The study employed both Assets and liabilities information from the balance sheet of firms listed in Nairobi Securities Exchange.

The regression model which assumes linearity, normality, constant and independence was

$$Y = B_0 + X_1 \beta_1 + X_2 \beta_2 + X_3 \beta_3 + X_4 \beta_4 + e$$

Y = the dependent variable (capital structure)

Capital structure= short term debt ÷ total assets or long term debts ÷ total assets or
total debts ÷ total assets

B₀ = Constant

X = coefficient

e = error rate

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ – was the regression coefficients in Y by each variable of X

X_1 = managers tenure (measured according to number of years manager has in the firm)

X_2 = Managers' age (measured through grouping them into age brackets)

X_3 = Manager Education (measured according to the level of education attained)

X_4 = Managers gender (either male or female whereby female is a lady)

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

The chapter presents the findings from data collected.

4.2 Response Rate

There are 61 companies listed at the Nairobi Securities Exchange. Data was obtained from 43 of these companies. This translated to a response rate of 70%. According to Mugenda and Mugenda (2003) a response rate should be at least 50% for it to be statistically significant for analysis.

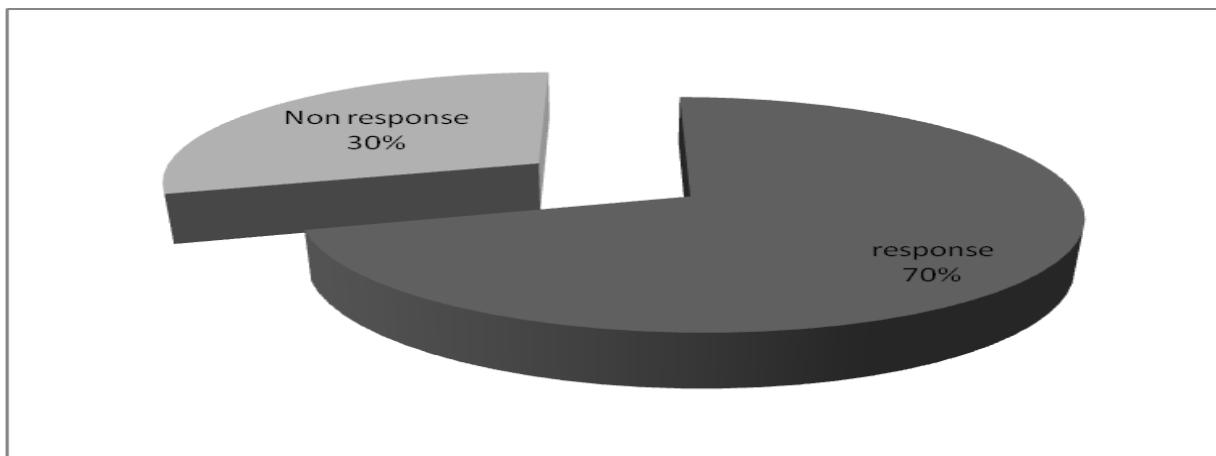


Figure 4.1: Response Rate

4.3 Age of the Chief Executive Officer

The study sought to establish the age of the Chief Executive Officer. Table 4.1 shows the findings.

Table 4.1:Age of the Chief Executive Officer.

| | Minimum | Maximum | Mean | Std. Deviation |
|-------------|---------|---------|---------|----------------|
| Overall age | 31.00 | 68.00 | 49.3837 | 6.90768 |

Source:(Research Data, 2014)

The oldest CEO was aged 68 years old with the youngest being aged 31 years between the years 2008-2013. The majority of the CEOs were in the age category of 40-55 and thus gave the mean age as 49.38 with a deviation of 6.9. According to Shukeri, Shin and Shaari (2012) CEOs are key in determining the performance of the firm and thus their characteristics will also affect the outcome of the decisions they make thus affecting the performance of the firm

4.4 Gender of the Chief Executive Officer

The study sought to establish the gender of the respondents. Table 4.2 shows the findings.

Table 4.2: Gender of the Chief Executive Officer.

| | Frequency | Percent |
|-------|-----------|---------|
| F | 12 | 5 |
| M | 246 | 95 |
| Total | 258 | 100.0 |

Source: (Research Data, 2014)

From the findings there were only 5% female CEOs in companies listed at the NSE from the years 2008-2013 while the majority were male at 95%. This shows although there were some female CEOs the majority were males in Companies listed at the NSE. Shukeri, Shin and Shaari (2012) established that there was no significant relationship between gender diversity of the directors on firm performance when trying to establish whether board of director's characteristics affected firm performance using evidence from Malaysian public listed companies

4.5 Tenure of the Chief Executive Officer

The study sought to establish the tenure of the CEO. The findings are in table 4.3.

Table 4.3: Tenure of the Chief Executive Officer

| | N | Minimum | Maximum | Mean | Std. Deviation |
|----------------|-----|---------|---------|--------|----------------|
| Overall tenure | 258 | 1.00 | 29.00 | 5.9225 | 4.47668 |

Source: (Research Data, 2014)

From the findings the CEO that had been serving for the longest time in the company had been for 29 years while the one with the shortest tenure had been in the company for one year. The majority of the CEOs had been in the category of less than 8years thus giving the mean of 5.92 and a deviation of 4.47. The period a CEO is in office is key in determining their performance and that of the company. This period they serve is important in the firm's performance since CEOs are important in determining the performance of the firm (Wolfenzon, 2010).

4.6 Level of education of the Chief Executive Officer

Table 4.4 shows the level of education of the CEOs.

Table 4.4: Level of Education

| | Frequency | Percent |
|------------------|-----------|---------|
| Bachelors Degree | 120 | 46.5 |
| Doctorate | 11 | 4.2 |
| Masters Degree | 127 | 49.3 |
| Total | 258 | 100.0 |

Source: (Research Data, 2014)

From the finding 46.5% of the CEOs between the years 2008-2013 had bachelor's degree, 4.2% had doctorates and 49.3% had master's degrees. This shows that the majority of the CEOs of the firms listed at the NSE had master's degrees. Bennedsen, Pérez-González and Wolfenzon (2010) concluded that the Chief Executive Officers matters in determining the organizational performance. Thus the education level of the CEO is very important since they are charged with the mandate to make very important decisions that affect the performance of the firm.

4.7 Capital Structure of the Firm

The study sought to establish the capital structure of the firm. The findings are shown in the table 4.5

Table 4.5: Capital Structure of the Firm

| | N | Minimum | Maximum | Mean | Std. Deviation |
|-------------|-----|---------|---------|--------|----------------|
| Overall C.S | 258 | .01 | 129.29 | 8.4355 | 17.14718 |

Source: (Research Data, 2014)

From the findings above, the minimal capital structure ratio was at 0.01 while the highest was at 129.29. The mean of the capital structure ratio was 8.43 with a standard deviation of 17.14. Njenga (2013) concluded from both the fixed effects and random effects models are estimated and the results reveal that firm specific factors affecting the capital structure of listed firms in Kenya are asset tangibility, firm's profitability, size of the firm, firm's growth opportunities and finally liquidity of a firm's assets while the macroeconomic factors are economic growth and corporate tax rate.

4.8 Regression Analysis

Multiple regression analysis was conducted to test the influence among predictor variables.

Table 4.6:Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|------|----------|-------------------|----------------------------|
| 1 | .776 | .602 | .598 | 1.12 |

a. Predictors: (Constant), overall education, overall tenure, overall gender, overall age

From the findings the R-Square which is the coefficient of determination is a commonly used statistic to evaluate model fit. The adjusted R^2 is also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 60.2% of the changes in the capital structure of the companies listed at the NSE can be attributed to the combined effect of the predictor variables. This means that 39.8% of the changes in the capital structure can be attributed to other factors.

Table 4.7:ANOVA Results

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|------------|----------------|-----|-------------|--------|-------------------|
| Regression | 1399.994 | 4 | 349.999 | 10.194 | .004 ^b |
| Residual | 74164.608 | 253 | 293.141 | | |
| Total | 75564.602 | 257 | | | |

a. Dependent Variable: overall Capital Structure

b. Predictors: (Constant), overall education, overall tenure, overall gender, overall age

The probability value of 0.004 indicates that the regression relationship was highly significant in predicting how age, gender, tenure and education of the CEO influence the capital structure of the firms listed at the NSE. The F critical at 5% level of significance was 2.5252 since F calculated is greater than the F critical (value = 10.194), this shows that the overall model was significant.

Table 4.8: Regression coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|-------------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 22.499 | 2.270 | | 2.191 | .001 |
| Overall age | -.029 | .161 | -.012 | -.181 | .003 |
| Overall gender | -6.546 | 5.140 | -.081 | -1.273 | .000 |
| Overall tenure | -.066 | .240 | -.017 | -.275 | .002 |
| Overall education | -3.420 | 1.928 | -.115 | -1.774 | .000 |

A. Dependent Variable: Overall Capital Structure

From the table 4.8 the regression model can be written as:

$$Y = 22.49 - 0.29X_1 - 6.546X_2 - 0.066X_3 - 3.420X_4$$

The regression equation above has established that taking all factors into account (Age, gender, tenure and education) constant at zero, the capital structure of the firm will be at 22.499. The findings presented also show that taking all other independent variables at zero, a unit increase in the age of the CEO would lead to a 0.029 reduction in the capital structure of the firm. A unit change in the gender of the CEO would lead to 6.546 decreases in the capital structure of the firm. In addition, the findings show that a unit increase in the tenure of the CEO would lead to a 0.066 decrease in the capital structure of the firm. The study also found that a unit increase in the education level of the CEO would lead to a 3.420 decrease in the capital structure of the firm. All the variables were significant as the P-values were less than 0.05.

4.9 Discussion

According to Upper Echelons theory, executives influence organisation innovations performance through the decisions they make. This theory suggests that executives make decisions that are consistent with their observable characteristics. The findings of this study show that there is a significant relationship between the age of the CEOs and capital structure of firms listed in NSE.

The study also shows that there is a positive relationship between tenure of CEOs and capital structure of firms listed in NSE. According to this study there is also a significant relationship between the level of education and capital structure of firms listed in NSE.

The findings of this study show there is no significant relationship between gender and capital structure of firms listed in NSE.

According to agency theory, capital structure is determined by agency conflicts between managers and outside investors while the findings of this study shows that capital structure of firms is determined by managers observable characteristics such as age, tenure and level of education.

According to Hennessy and Whited (2005), capital structure is determined by the trade-off between the benefits of debt tax shield and the cost of financial distress. Njenga (2013) concluded that firm specific factors affecting capital structure of listed firms in Kenya are asset tangibility, firm's profitability, size of the firm, firm's growth opportunities and liquidity of firm's assets.

CHAPTER FIVE

SUMMARY CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter provides the summary of the findings from chapter four, and also it gives the conclusions and recommendations of the study based on the objectives of the study.

5.3 Discussions of the Findings

The study established that the majority of the CEOs of the firms listed at the NSE were in the age bracket of between 40-55 with the oldest being 68 years old and the youngest being 31 years between the years 2008-2013. According to Shukeri, Shin and Shaari (2012) CEOs are key in determining the performance of the firm and thus their characteristics will also affect the outcome of the decisions they make thus affecting the performance of the firm.

The findings also established that majority of the CEOs in the Firms listed at NSE were male. However Shukeri, Shin and Shaari (2012) in trying to establish whether the board of director's characteristics affected firm performance using evidence from Malaysian public listed companies, they concluded that there was no significant relationship between gender diversity of the directors on firm performance.

On the tenure of the CEOs, the findings established that different CEOs had served their organization for different years. The period a CEO is in office is key in determining their performance and that of the company. This period they serve is important in the firm's performance since CEOs are important in determining the performance of the firm (Wolfenzon, 2010).

On the level of education the study established that the majority of the CEOs had master's degrees followed by those with bachelor's degrees and the least had doctorate degrees. Bennedsen, Pérez-González and Wolfenzon (2010) concluded that the Chief Executive Officers matters in determining the organizational performance. Thus the education level of the CEO is very important since they are charged with the mandate to make very important decisions that affect the performance of the firm.

The study established that the firms listed at the NSE had different capital structure ratio. Njenga (2013) concluded from both the fixed effects and random effects models are estimated and the results reveal that firm specific factors affecting the capital structure of listed firms in Kenya are asset tangibility, firm's profitability, size of the firm, firm's growth opportunities and finally liquidity of a firm's assets while the macroeconomic factors are economic growth and corporate tax rate.

5.4 Conclusions of the Study

The study made the following conclusions; there is a significant relationship between the age of the CEOs and the performance of the firm. The study concludes that CEOs need to be of a mature age as they are tasked with making important decisions.

The study also concludes there is no significant relationship between the gender of the respondents and the performance of the firm. The study concludes that the majority of the CEOs are male. The study also concludes that the tenure of the CEO affects the performance of the firm.

The study concludes that there is a significant relationship between the level of education of the CEO and the performance of the firms listed at the NSE. The study also concludes that the majority of the CEOs at the firms listed at the NSE have master's degrees.

5.5 Recommendations of the Study

The study makes the following recommendations: This study established that the majority of the CEOs are male and that there is no significant relationship between the gender of the CEO and the performance of the firm. The study therefore recommends that more female CEOs be appointed. This will promote gender equality in management and thus giving women more roles in the organization as a requirement of the constitution of Kenya.

The study concluded that the level of education of the CEOs affects the performance. The study therefore recommends that organizations facilitate for their CEOs to attend trainings that will equip them with relevant skills in management. This will be of importance in keeping them up to date with the new trends in the market and thus enabling them to make informed choices in the organization.

The study also established that there is a relationship between the tenure of the CEO. This study therefore recommends that CEOs be appointed based on the time they have served the company or they have been in the industry. This will ensure that organizations appoint leaders that are conversant with the dealings of the firm and have had such experience to be at the top management.

5.6 Limitations of the Study

A limitation in this study included any situation that was present in the processing of completing it that could have influenced the results obtained. This study experienced

several limitations. First, the data used in the analysis was secondary data meant for other purposes and was subject to various macroeconomic variables which may have influenced their construction. This may have however limited the applicability of the data in other circumstances.

Under the study period, there have been massive fluctuations in the capital structure among firms listed at the NSE. This may have tampered with the prevailing rates of Capital structure which the dependent variable in this study.

The data used in this study could also have been affected by different regulatory adjustments imposed by the regulators. For example, in the year 2013 saw the demutualization of the stock market. These could have affected the level of capital structure of many firms.

In addition, the levels of interest rates fluctuated a lot during the period of the study. Since debt is accompanied by the interest rates paid by the companies, this would have affected the level of debt financing of many companies listed at the NSE. This was done through affecting the ability of companies to repay credit facilities thus limiting the amount they could access.

5.7 Recommendations for Further Studies

This study sought to establish the effect of manager characteristics on the capital structure of firms listed in Nairobi Securities Exchange. The study however concentrated on only the firms listed at the Nairobi Securities Exchange. This study therefore recommends that in the future a similar study be conducted across all firms in the country so as to generalize the findings.

The study also recommends that in the future a study be conducted on the effects of the organization culture on the capital structure of firms. This will enable the organizations establish how their culture contributes to the performance of the firm and thus make changes accordingly.

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APPENDICES

APPENDIX 1: Secondary Data Capture Form

| Firm | Year | Age | Gender | Level of Education | Tenure | Capital structure |
|---------------------|-------------|------------|---------------|---------------------------|---------------|--------------------------|
| 1.Safaricom Ltd | 2008 | | | | | |
| | 2009 | | | | | |
| | 2010 | | | | | |
| | 2011 | | | | | |
| | 2012 | | | | | |
| | 2013 | | | | | |
| | | | | | | |
| 2. Kakuzi Ltd | 2008 | | | | | |
| | 2009 | | | | | |
| | 2010 | | | | | |
| | 2011 | | | | | |
| | 2012 | | | | | |
| | 2013 | | | | | |
| | | | | | | |
| 3. CMC Holdings Ltd | 2008 | | | | | |
| | 2009 | | | | | |
| | 2010 | | | | | |
| | 2011 | | | | | |
| | 2012 | | | | | |
| | 2013 | | | | | |
| | | | | | | |
| 4. Equity Bank Ltd | 2008 | | | | | |
| | 2009 | | | | | |
| | 2010 | | | | | |
| | 2011 | | | | | |
| | 2012 | | | | | |
| | 2013 | | | | | |

Source: (Author, 2014)

APPENDIX 2 : Firms quoted in Nairobi Securities Exchange

| |
|--------------------------------------|
| AGRICULTURAL |
| Eaagads Ltd |
| Kakuzi Ltd |
| Kapchorua Tea Co. Ltd |
| The Limuru Tea Co. Ltd |
| Rea Vipingo Plantations Ltd |
| Sasini Ltd |
| Williamson Tea Kenya Ltd |
| |
| AUTOMOBILES & ACCESSORIES |
| Car & General (K) Ltd |
| CMC Holdings Ltd |
| Marshalls (E.A.) Ltd |
| Sameer Africa Ltd |
| BANKING |
| Barclays Bank of Kenya Ltd |
| CFC Stanbic of Kenya Holdings Ltd |
| Diamond Trust Bank Kenya Ltd |
| Equity Bank Ltd |
| Housing Finance Co.Kenya Ltd |
| I&M Holdings Ltd |
| Kenya Commercial Bank Ltd |
| National Bank of Kenya Ltd |
| NIC Bank Ltd |
| Standard Chartered Bank Kenya Ltd |
| The Co-operative Bank of Kenya Ltd |
| COMMERCIAL AND SERVICES |
| Express Kenya Ltd |
| Hutchings Biemer Ltd |
| Kenya Airways Ltd |
| Longhorn Kenya Ltd |
| Nation Media Group Ltd |
| Scangroup Ltd |
| Standard Group Ltd |
| TPS Eastern Africa Ltd |
| Uchumi Supermarket Ltd |
| CONSTRUCTION & ALLIED |
| ARM Cement Ltd |

| |
|--|
| Bamburi Cement Ltd |
| Crown Paints Kenya Ltd |
| E.A.Cables Ltd |
| E.A.Portland Cement Co. Ltd |
| ENERGY & PETROLEUM |
| KenGen Co. Ltd |
| KenolKobil Ltd |
| Kenya Power & Lighting Co Ltd |
| Total Kenya Ltd |
| Umembe Ltd |
| INSURANCE |
| British-American Investments Co.(Kenya) Ltd |
| CIC Insurance Group Ltd |
| Jubilee Holdings Ltd |
| Kenya Re Insurance Corporation Ltd |
| Liberty Kenya Holdings Ltd |
| Pan Africa Insurance Holdings Ltd |
| INVESTMENT |
| Centum Investment Co Ltd |
| Olympia Capital Holdings Ltd |
| Trans-Century Ltd |
| MANUFACTURING & ALLIED |
| A.Baumann & Co Ltd |
| B.O.C Kenya Ltd |
| British American Tobacco Kenya Ltd |
| Carbacid Investments Ltd |
| East African Breweries Ltd |
| Eveready East Africa Ltd |
| Kenya Orchards Ltd |
| Mumias Sugar Co. Ltd |
| Unga Group Ltd |
| TELECOMMUNICATION & TECHNOLOGY |
| Safaricom Ltd |
| GROWTH ENTERPRISE MARKET SEGMENT (GEMS) |
| Home Afrika Ltd |

Source: (Nairobi Securities Exchange, 2014)

APPENDIX 3: AGE

| Name of the Company | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|------------------------------|----------------|--------------|--------------|--------------|--------------|--------------|
| BOC | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years |
| Athi River Mining | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Bamburi Cement | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 46-55 years |
| Barclays Bank of Kenya Ltd | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Car & General Kenya | 35-45 years | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years |
| Centum Kenya | below 35 years | below 35 yrs | below 35 yrs | below 35 yrs | below 35 yrs | 35-45 years |
| CFC Stanbic | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| CMC Holdings | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Co-operative Bank of Kenya | 35-45 years | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years |
| Crown Paints | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Diamond Trust Bank | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 46-55 years |
| East African Breweries | 35-45 years | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years |
| East African Cables | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 46-55 years |
| East African Portland Cement | 56-65 years | 56-65 years | 56-65 years | above 65 yrs | above 65 yrs | above 65 yrs |
| Equity Bank | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Eveready East Africa | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years |
| Express Kenya | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |

| | | | | | | |
|----------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Housing Finance Company of Kenya | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years |
| Jubilee Holdings | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| KenGen | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| KenolKobil | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 35-45 years | 46-55 years |
| Kenya Airways | 35-45 years | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Kenya Commercial Bank | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Kenya Power & Lighting | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Kenya Re | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Mumias Sugar | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 56-65 years |
| Nation Media Group | 56-65 years | 56-65 years | 56-65 yrs | above 65 yrs | above 65 yrs | above 65 yrs |
| National Bank of Kenya | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| NIC Bank | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Olympia Capital Holdings | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Pan Africa Insurance Holdings | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 56-65 years |
| REA Vipingo Plantations | 56-65 years | 56-65 years | 56-65 years | above 65 yrs | above 65 yrs | above 65 yrs |
| Safaricom | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Sasini | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| ScanGroup | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 56-65 years | 56-65 years |
| Standard Chartered Bank Kenya | 35-45 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years | 46-55 years |
| Standard Group | 56-65 years | 56-65 years | 56-65 years | 56-65 years | 56-65 years | 56-65 years |

| Total Kenya | 56-65 years |
|----------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| TPS Serena | 56-65 years |
| TransCentury | 46-55 years |
| Uchumi | 35-45 years |
| Unga Group | 56-65 years |
| Williamson Tea Kenya | 46-55 years |
| | | | | | | |

Source: (NSE, 2014)

APPENDIX 4: GENDER

| Name of the Company | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|--------|--------|--------|--------|--------|--------|
| BOC | male | male | male | female | female | female |
| Athi River Mining | male | male | male | male | male | male |
| Bamburi Cement | male | male | male | male | male | male |
| Barclays Bank of Kenya Ltd | male | male | male | male | male | male |
| Car & General Kenya | male | male | male | male | male | male |
| Centum Kenya | male | male | male | male | male | male |
| CFC Stanbic | female | male | male | male | male | male |
| CMC Holdings | male | male | male | male | male | male |
| Co-operative Bank of Kenya | male | male | male | male | male | male |
| Crown Paints | male | male | male | male | male | male |
| Diamond Trust Bank | male | female | female | female | female | female |
| East African Breweries | male | male | male | male | male | male |
| East African Cables | male | male | male | male | male | male |
| East African Portland Cement | male | male | male | male | male | male |
| Equity Bank | male | male | male | male | male | male |
| Eveready East Africa | male | male | male | male | male | male |
| Express Kenya | male | male | male | male | male | male |
| Housing Finance Company of Kenya | male | male | male | male | male | male |
| Jubilee Holdings | male | male | male | male | male | male |
| KenGen | male | male | male | male | male | male |
| KenolKobil | male | male | male | male | male | male |
| Kenya Airways | male | male | male | male | male | male |
| Kenya Commercial Bank | male | male | male | male | male | male |
| Kenya Power & Lighting | male | male | male | male | male | male |
| Kenya Re | male | female | female | male | male | male |
| Mumias Sugar | | male | male | male | male | male |
| Nation Media Group | M | male | male | male | male | male |
| National Bank of Kenya | F | male | male | male | male | male |
| NIC Bank | | male | male | male | male | male |
| Olympia Capital Holdings | | male | male | male | male | male |
| Pan Africa Insurance Holdings | M | male | male | male | male | male |
| REA Vipingo Plantations | M | male | male | male | male | male |
| Safaricom | M | male | male | male | male | male |
| Sasini | M | male | male | male | male | male |
| ScanGroup | M | male | male | male | male | male |
| Standard Chartered Bank Kenya | M | male | male | male | male | male |
| Standard Group | M | male | male | male | male | male |
| Total Kenya | M | male | male | male | male | male |

| | | | | | | |
|----------------------|---|------|------|------|------|------|
| TPS Serena | | male | male | male | male | male |
| TransCentury | M | male | male | male | male | male |
| Uchumi | | male | male | male | male | male |
| Unga Group | M | male | male | male | male | male |
| Williamson Tea Kenya | M | male | male | male | male | male |

Source: (NSE, 2014)

APPENDIX 5: TENURE

| Name of the Company | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| BOC | less than 8 years |
| Athi River Mining | 24-30 years |
| Bamburi Cement | less than 8 years |
| Barclays Bank of Kenya Ltd | less than 8 years | less than 8 years | less than 8 years | 9-15 years | 9-15 years | less than 8 years |
| Car & General Kenya | less than 8 years |
| Centum Kenya | less than 8 years |
| CFC Stanbic | less than 8 years |
| CMC Holdings | less than 8 years |
| Co-operative Bank of Kenya | less than 8 years |
| Crown Paints | less than 8 years |
| Diamond Trust Bank | less than 8 years | less than 8 years | 9-15 years | 9-15 years | 9-15 years | 9-15 years |
| East African Breweries | less than 8 years |
| East African Cables | less than 8 years |
| East African Portland Cement | less than 8 years |
| Equity Bank | less than 8 years | 9-15 years |
| Eveready East Africa | less than 8 years |
| Express Kenya | less than 8 years |
| Housing Finance Company of Kenya | less than 8 years |
| Jubilee Holdings | less than 8 years |
| KenGen | less than 8 years | 9-15 years | 9-15 years |
| KenolKobil | less than 8 years |
| Kenya Airways | less than 8 years | 9-15 years |
| Kenya Commercial Bank | less than 8 years |

| | | | | | | |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Kenya Power & Lighting | 9-15 years | less than 8 years |
| Kenya Re | less than 8 years |
| Mumias Sugar | less than 8 years | less than 8 years | less than 8 years | 9-15 years | 9-15 years | less than 8 years |
| Nation Media Group | less than 8 years |
| National Bank of Kenya | 9-15 years | less than 8 years |
| NIC Bank | less than 8 years |
| Olympia Capital Holdings | 9-15 years | 9-15 years | 9-15 years | 16-23 years | 16-23 years | 16-23 years |
| Pan Africa Insurance Holdings | less than 8 years |
| REA Vipingo Plantations | less than 8 years | 9-15 years | 9-15 years | 9-15 years | 9-15 years | 9-15 years |
| Safaricom | less than 8 years | 9-15 years | less than 8 years | less than 8 years | less than 8 years | less than 8 years |
| Sasini | less than 8 years |
| ScanGroup | less than 8 years |
| Standard Chartered Bank Kenya | less than 8 years |
| Standard Group | less than 8 years |
| Total Kenya | less than 8 years |
| TPS Serena | less than 8 years | 9-15 years | 9-15 years |
| TransCentury | less than 8 years |
| Uchumi | less than 8 years |
| Unga Group | less than 8 years | 9-15 years | 9-15 years |
| Williamson Tea Kenya | less than 8 years | 9-15 years |

Source: (NSE, 2014)

APPENDIX 6: LEVEL OF EDUCATION

| Name of the Company | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| BOC | bachelors degree |
| Athi River Mining | masters degree |
| Bamburi Cement | bachelors degree |
| Barclays Bank of Kenya Ltd | masters degree |
| Car & General Kenya | bachelors degree |
| Centum Kenya | bachelors degree |
| CFC Stanbic | masters degree |
| CMC Holdings | bachelors degree |
| Co-operative Bank of Kenya | bachelors degree |
| Crown Paints | masters degree |
| Diamond Trust Bank | bachelors degree |
| East African Breweries | bachelors degree | masters degree | masters degree | masters degree | masters degree | masters degree |
| East African Cables | bachelors degree | bachelors degree | bachelors degree | bachelors degree | masters degree | masters degree |
| East African Portland Cement | masters degree |
| Equity Bank | bachelors degree |
| Eveready East Africa | bachelors degree | bachelors degree | bachelors degree | bachelors degree | masters degree | masters degree |
| Express Kenya | masters degree |
| Housing Finance Company of Kenya | bachelors degree |
| Jubilee Holdings | bachelors degree |
| KenGen | bachelors degree |
| KenolKobil | bachelors degree |

| | | | | | | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Kenya Airways | bachelors degree |
| Kenya Commercial Bank | masters degree |
| Kenya Power & Lighting | masters degree |
| Kenya Re | masters degree |
| Mumias Sugar | masters degree |
| Nation Media Group | masters degree |
| National Bank of Kenya | bachelors degree | masters degree |
| NIC Bank | bachelors degree |
| Olympia Capital Holdings | masters degree |
| Pan Africa Insurance Holdings | masters degree |
| REA Vipingo Plantations | masters degree |
| Safaricom | bachelors degree | bachelors degree | masters degree | masters degree | masters degree | masters degree |
| Sasini | masters degree | PhD | PhD | PhD | PhD | PhD |
| ScanGroup | masters degree |
| Standard Chartered Bank Kenya | masters degree |
| Standard Group | bachelors degree | bachelors degree | bachelors degree | masters degree | masters degree | masters degree |
| Total Kenya | bachelors degree |
| TPS Serena | masters degree |
| TransCentury | PhD | PhD | PhD | PhD | PhD | PhD |
| Uchumi | masters degree |
| Unga Group | bachelors degree |
| Williamson Tea Kenya | bachelors degree |

Source: (NSE, 2014)

APPENDIX 7: CAPITAL STRUCTURE

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|----------------------------------|-------|-------|-------|-------|--------|--------|
| Name of the Company | 0.04 | 0.06 | 0.06 | 0.02 | 0.02 | 0.04 |
| BOC | 4.81 | 9.41 | 17.02 | 20.18 | 26.91 | 20.43 |
| Athi River Mining | 0.37 | 0.3 | 0.19 | 0.18 | 0.17 | 21.87 |
| Bamburi Cement | 54.51 | 51.79 | 51.75 | 51.18 | 57.16 | 0.09 |
| Barclays Bank of Kenya Ltd | 0.19 | 0.17 | 0.18 | 0.29 | 0.3 | 0.6 |
| Car & General Kenya | 6.25 | 4.59 | 5.88 | 0.24 | 3.01 | 0.03 |
| Centum Kenya | 0.47 | 0.49 | 1.16 | 39.05 | 42.64 | 0.27 |
| CFC Stanbic | 0.83 | 1.56 | 1.46 | 1.48 | 2.33 | 0.06 |
| CMC Holdings | 5.45 | 6.07 | 6.72 | 7.03 | 5.83 | 71.6 |
| Co-operative Bank of Kenya | 0.12 | 0.12 | 0.09 | 0.09 | 0.04 | 5.25 |
| Crown Paints | 7 | 7.29 | 7.15 | 7.13 | 6.27 | 5.25 |
| Diamond Trust Bank | 1.5 | 1.46 | 1.56 | 2.32 | 2.15 | 0.52 |
| East African Breweries | 4.82 | 6.28 | 8.62 | 5.1 | 6.25 | 0.04 |
| East African Cables | 0.96 | 0.72 | 0.79 | 1 | 1.44 | 4.28 |
| East African Portland Cement | 32.04 | 42.09 | 62.57 | 87.53 | 10.94 | 4.28 |
| Equity Bank | 0.24 | 0.19 | 0.31 | 0.28 | 0.3 | 1.27 |
| Eveready East Africa | 1.36 | 2.57 | 2.4 | 2.44 | 0.77 | 3.35 |
| Express Kenya | 8.8 | 12.32 | 21.76 | 23.61 | 31.15 | 4.39 |
| Housing Finance Company of Kenya | 8.8 | 88.63 | 21.76 | 23.61 | 129.29 | 13.57 |
| Jubilee Holdings | 5.63 | 0.14 | 7.17 | 0.42 | 2.38 | 0.07 |
| KenGen | 6.67 | 4.4 | 3.86 | 20.79 | 12.2 | 1.61 |
| KenolKobil | 15.94 | 16.07 | 14.17 | 14.47 | 13.28 | 28.44 |
| Kenya Airways | 3.77 | 3.93 | 4.44 | 5.05 | 5.24 | 24.49 |
| Kenya Commercial Bank | 1.36 | 1.65 | 2.13 | 3.08 | 2.29 | 10.24 |
| Kenya Power & Lighting | 0.38 | 0.39 | 0.44 | 0.5 | 0.61 | 0.11 |
| Kenya Re | 0.56 | 1.2 | 1.33 | 1.87 | 1.95 | 2.2 |
| Mumias Sugar | 0.33 | 0.23 | 0 | 0.41 | 0.35 | 4.56 |
| Nation Media Group | 5.16 | 6.15 | 7.08 | 8.23 | 8.01 | 0.14 |
| National Bank of Kenya | 3.52 | 3.87 | 4.81 | 6.51 | 8.83 | 23.91 |
| NIC Bank | 1.62 | 1.73 | 1.64 | 2.13 | 2.77 | 0.06 |
| Olympia Capital Holdings | 20.45 | 26.47 | 36.83 | 19.57 | 28.84 | 1.17 |
| Pan Africa Insurance Holdings | 0.67 | 0.71 | 0.94 | 1.32 | 1.32 | 10.58 |
| REA Vipingo Plantations | 3.24 | 2.39 | 4 | 6.14 | 6.1 | 0.7 |
| Safaricom | 7.53 | 8.46 | 9 | 9.28 | 8.38 | 9.28 |
| Sasini | 0.01 | 0.04 | 0.42 | 1.18 | 1.26 | 0.33 |
| ScanGroup | 0.01 | 0.04 | 2.39 | 0.42 | 1.26 | 13.25 |
| Standard Chartered Bank Kenya | 2.3 | 2.43 | 2 | 1.81 | 1.48 | 12.18 |
| Standard Group | 1.96 | 0.83 | 0.78 | 0.63 | 0.09 | 112.08 |

| | | | | | | |
|--------------|------|-------|------|------|------|------|
| Total Kenya | 1.96 | 0.22 | 0.83 | 1.29 | 0.78 | 3.35 |
| TPS Serena | 0.91 | 0.9 | 0.64 | 1.21 | 1.13 | 1.56 |
| TransCentury | 6.67 | 56.75 | 0.36 | 0.14 | 0.06 | 0.06 |
| Uchumi | 0.09 | 0.11 | 0.01 | 0.09 | 0.11 | 3.85 |
| Unga Group | 0.09 | 8.87 | 0.11 | 8.85 | 0.01 | 0.79 |

Source: (NSE, 2014)