

Influence of Corporate Control on Capital Structure for Companies Listed at the Nairobi Securities Exchange

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Abstract

This study aimed at determining the impact of corporate control on capital structure of Nairobi Securities listed firms. Capital structure decision contribute significantly to creating and growing firm's value and wealth maximization for shareholders while corporate control is believed to be key influencer of the quality of such decision. The paper tested the hypothesis that there is no significant influence of corporate control on capital structure. Trade-off theory is the anchoring theory. Regression analysis and correlation analysis were applied to test the hypotheses. The key study variables of the listed companies were subjected to descriptive statistics and the results revealed a significant positive linkage between the variables. The findings were in line with previous research findings and also provided further insight on the impact of self-determining variable, corporate control on the capital structure. The study has also applied important mechanism in CCI to study the influence of corporate control on capital structure which has provided new insight on the relationship thereby enriching the result.

Keywords: corporate control, agency theory, trade-off theory, capital structure

1. Introduction

The credibility of current corporate control structure has been put to stress test by the reducing performance of previously highly performing firms and the increasing corporate failures being experienced locally, regionally and even globally which is contrary to the claim that a well-designed structure is vital for a broadminded corporate progress and social improvement (Ongoro & K'Obonyo, 2011). A number studies have shown that investment decisions are increasing being based not only on company's outlook but also on corporate control practice of the company and its reputation in the market place and that application of prudent corporate control rules creates confidence in investors to obtain profits (Lekaram, 2014). The increased interest in corporate control, its practice and principles is seen as key in determination and application of corporate power in the utilization of firm's resources including its assets. It is of concern that some previously well performing blue chip companies have recently been declared bankrupt or sold out after continued making of loss (Mauwa et al., 2016).

Corporate control can be defined as rules and policies set out by management to regulate its affairs and have efficient management of company's resources to enhance value of company and attain maximum shareholders returns (Keasey & Wright, 1993). Companies with good corporate control practices are investor friendly, which enable them to optimize their capital structure by attracting cheaper funding thereby maximizing returns to shareholders. According to Berle and Means (1932), separating gap concerning control and ownership is directly proportionate to the size of company and inversely related to equity ownership resulting to increment of agency cost. This results into agency conflict as management start to pursue selfish interest contrary to those of shareholders (Jensen & Meckling, 1976). The agency costs result from management general inefficiency, embezzlement of funds and investing in less profitable portfolios. Corporate control practices improves company's efficiency and effectiveness through proper supervision and thereby minimizing agency conflicts and put interest of management with that of investors in optimizing corporate value (Shleifer & Vishny, 1997).

Locally we have experienced collapse of a number of banks in 1980's, recent operation difficulties being

experienced at the National Hospital Insurance Board, Uchumi and Nakummat Supermarkets as well as the continuing huge losses by Kenya Airways and constant bail out by Government of Kenya Airways, Mumias Sugar among others. A number of studies (Stulz, 1990; Shleifer & Vishny, 1997; and Wanyama & Olweny, 2013) have attributed this problem to distinction of ownership and control resulting in divergent of interest between agents and principles which results in agency cost. Recent studies (Chagbadari, 2011; Dominic & Memba, 2015 and Dor et al., 2011) postulated that this is a reflection of deep seated corporate control shortcomings such as complacency of board oversight, poor corporate governance and lack of strategic foresight by the management.

1.1 Corporate Control

Corporate control is an internal process of directing and governing company's activities and business through people, systems and procedures to achieve the objectives of shareholders and other stakeholders (Wanyama & Olweny, 2013). It is the procedure and processes according to which firms are directed and controlled (OECD, 2014). The concept of corporate control can be likened to that of corporate governance; conversely, in this study it is used in a limited way to focused on those holding power and those applying the same to determine significant corporate actions and controls (Rajput & Bharti, 2015). Some of the suggestion designed to reduce agency costs are having an effective board of directors, allowing agents to have shares which would motivate them to make effective decisions (McColgan, 2001). Board composition is therefore key in improving performance to the extent that they come up with policies that gives the company a competitive edge through deploying informed policies while employing effective monitoring and control mechanism to safeguard shareholders wealth.

According to Sheifer and Vishny (1997), corporate control entails a mechanism that assures investors that they will get return at the end. As Jensen and Meckling (1976) argued, the prime problem stemming from ownership and control is difference in interests that leads to huge agency cost. The chief objective of corporate control is to ensure that appropriate check systems, controls, management structure and have been established to optimize returns and minimize losses with the aim of enhancing accountability and transparency in such a way as to reduce agency costs through increased productivity and efficiency. Effective board of directors would provide leadership and guidance to management, provide corporate governance and be held accountable to the shareholders (Afande & Melly, 2002). The methods of corporate control relate to the machinery which are applied to ensure accountability. Measurement variables of board organization and composition, board diversity, transparency, disclosure and auditing, board wage and corporate moral code were used as proxy for corporate control.

1.2 Capital Structure

Brigham and Ehrhardt (2004) defined capital structure as means used by corporation to funds their operation whether long term through shares and bonds or short terms through lines of credit or overdrafts or a mix of both long term and short term with the main objective of optimizing return on capital employed. According to the pecking order theory, the management plays a crucial role in the way the company monetary resources are utilized, starting with retained earnings, then debt and finally equity. In accordance to this hypothesis, there is no best possible capital organization hence the resulting capital structure is just a combination of decisions made earlier (Hansmann, 2000).

Capital structure variables measurements to be used is leverage. It involves borrowing money to invest in company's capital expansion or working capital, over and above what has been contributed by shareholders (Denis, 2001). It weighs the capability of a company to deal with trade downturns, meaning that a company with high leverage is more susceptible to trade shocks because it has little ability to service debt (Jensen, 1986). Financing decision of a company to introduce debt in a company as part of the capital structure of the company result in leverage. This leverage decision can impact corporate value growth (Mauwa et al., 2016). High leverage reduces agency cost and increases corporate value by ensuring that managers implement only investments with positive cash flow, reduce wastage and generally become more effective and efficiency in achieving corporate objectives. It also promote good corporate control as there is close scrutiny by banks, monitoring and controlling by investors and other stakeholders in actions and activities of the management to avoid bankruptcy. Leverage also ensure that the management have the financial discipline, without this, increasing cash flow into the company may result in destruction of value as management engages in empire building and increased perks unless the excess cash flow is paid out as dividend to shareholders (Pinengar & Wilbricht, 1989). The cost of equity include premium and floatation costs, tax costs, and adverse selection (Graham & Harvey, 2001).

1.3 The Nairobi Securities Exchange

In Kenya, the NSE is the regulatory body charged with ensuring compliance to corporate control principles

intended to eliminate weaknesses identified by previous studies which were expected to ensure effective corporate control for optimal corporate value. Although NSE has met most of its objectives, a number of companies listed at the NSE still faces fiscal and control challenges due to dispersed ownership structures resulting from floating of shares to the public, increasing debt levels as agency cost increases and corporate control failures due to inadequate monitoring (Kiruri, 2013). The capital market must regain the confidence of the investors – both current and the future investors – to realize a turnaround in sustainable growth, innovativeness and further expansion in number and quality of listings. For this to be attained, there should be a complete paradigm-shift in the understanding of the contribution of poor corporate control policies and inappropriate capital structure in this failure and how the same can be improved on. The share value of listed companies in Nairobi Securities Exchange seems to be on a free fall in the last three years. Some of companies listed at the NSE continue to show fundamental weakness and poor performance. A few of them have collapsed while some are in the brink of failures (Omondi & Muturi, 2013). The latest downfall were Imperial Bank, Dubai bank and Chase bank. Argument on whether it is the control failure or financial distress combination of these that is responsible for the failure continues. The intention is to determine the effect of corporate control on capital structure.

1.4 Research Problem

The frequent financial crisis and the resulting corporate failures being witness globally has catapult corporate control and capital structure to highest attention of both researchers and regulatory authorities worldwide (Solomon et al., 2013). Attempts have been made to tighten regulatory laws and oversight aimed at mitigating and minimizing such occurrence (Wachudi & Mboya, 2009). However, The corporate scandals like the one at CMC Motors, NHIF board, several years losses reported by Kenya Airways, Kenya Meat Commission, Mumias Sugar and the latest downfall and challenges of Dubai Bank, Imperial Bank and Chase Bank - are evidence that some poor corporate control practices still exist despite the controls implemented (Osebe & Chepkemai, 2016).

Despite the substantial evidence of positive influence of corporate control, there seems to be a deep rooted problems in some corporate control systems and financial distress (Chagbadari, 2011). The question which has remained un-answered is whether there exists an optimal capital structure. As more listed companies are being declared bankrupt, the dilemma on whether such failures are due to corporate control and governance issues, financial challenges or both has awaken discussion on effect of corporate control and capital structure. Although a number of research has been undertaken in this area, most have focused more on the effect of corporate governance on firm performance, very little effort has been put on how corporate control affects capital structure. Other findings have indicated that the cost associated with implementation of stronger corporate control may outweigh the beneficial impact on capital structure. Evidence also suggests that the effect of corporate control on capital structure may depend on firm level control practice and the regulatory structure or environment in which the firms being studied operates. Unlike in the case of developed economies, only limited studies have been carried out in developing countries. This study is therefore intended to fill this gap.

1.5 Research Objective

Effect of corporate control on capital structure for listed companies at the NSE.

2. Literature Review

2.1 Agency Theory

It was advanced by Jensen and Meckling (1976) who posit it as an arrangement in which the principle delegates the control and management of the business to the agents (managers) who are expected to act for the benefit of shareholders, however, this mutual relationship is affected by conflicting interests. The theory stems from agency relationship that exists in a corporate environment in which there is fiduciary duty on the management (agent) to the shareholders (Principal) to work for the principal's best interest. To minimize the agency costs, various control mechanisms aimed at aligning the interest of the agents with that of the principles may be considered. Some of these may be equity ownership, bonus payment based on targets, having effective board of directors among others. The research applied agency theory as the main theory in determining the impact on corporate control on capital structure. This theory attempts to improve corporate control in order to optimize company value by mitigating agency problem resulting in reduced agency cost. It adopts a narrow perspective definition which put emphasis on shareholders' interest - as opposed to stakeholders' interest – whose main interest is company value maximization. The manager's loyalty and dedication is anchored in his ability place corporate goals before his.

The corporate governance and agency theory give basis that intertwine corporate control and company value.

This then provides room for testable hypothesis on different variables of corporate control mechanisms that can be predicted to effect company value (Hermalin & Weisbach, 2003).

2.2 The Trade-Off Theory

The link between corporate control and capital structure is best captured by trade off theory. This theory postulates that companies would prefer to finance through debt until the benefits resulting from tax shields equals the costs of fiscal distress and bankruptcy. The theory was pioneered by Jensen and Meckling (1976) who postulated that there is a trade-off between a company's optimal capital structure and impact of bankruptcy costs, taxes and agency costs. This association would then define the level of debt and equity that the company can hold at a particular time to optimize company value. Tax saving resulting from interest expenses – which is an allowable expenses is the debt benefit (Frank & Goyal, 2003).

According to Modigliani and Miller (1958), when the market is perfect, the capital structure is not relevant in determining cost of capital or corporate performance. In such a perfect market with symmetric information, the trade-off would result in optimal capital structure when the various imperfections have been taken into account. Such imperfections are high taxes on dividend which would cause management to go for more debt than equity (Modigliani & Miller, 1958 and 1963). This would be balanced off by higher cost of financial distress which pushes management to prefer more equity. A mix of debt and equity would therefore be preferred to balance off cost and risk resulting into a trade-off between debt and equity. In addition to the tax benefit of debt, the free cash flow would also make companies go for more debt financing even as the bankruptcy cost and other agency costs balances off this appetite. Optimal capital structure can therefore be defined as a mix of capital structure that equates marginal cost of capital with marginal revenue realized from it. According to Lemmon and Zender (2002), the trade-off theory predicts the debt-ratios to be mean reverting as companies utilizes debt and equity financing to strategically keep their values as close as possible to their optimal levels.

2.3 Corporate Control and Capital Structure

The nexus of corporate control and capital structure has elicited a lot of interest. Capital structure may be considered purely on fiscal terms, but can also be analyzed by viewing it as an array of civil rights and characteristics that characterizes company's resources and that effects, with various intensity levels, the control undertakings. This implies that equity and debt qualifies both as fiscal instruments and as corporate control instruments. Debts imposes stricter control on control activities while equity permits for more flexibility in choice making (Wasiamson, 1988). It would therefore be interesting to see whether recent development in the capital market coupled with company and market maturity achieved so far in the local market could have changed these linkages and provided some level of consistency on the link between capital structure and company value.

The relationship between corporate control and capital structure is crucial given that capital structure plays a significant role in value generation and distribution (Githira & Nasieku, 2015). It has proved that it can shield a well-managed value creation process by setting up ways of managing the created value distribution. Any change in financing structure would then impact how incentives and monitory of management is done. The emerging mix of debt and equity has an effect precipitating a group of players whose influence in the firm control structure may play out depending on how management responds to them and the level of relative control power assumed (Brown & Caylor, 2006). Debt and equity structure can also be deliberately designed to increase corporate Control efficiency and subsequently the corporate value. The efficiency of a company is measured by the per unit earning for every unit of capital employed, such high return would allow a faster replacement of debt with equity from internally generated funds thereby reducing portfolio risk while increasing further its performance (Abdul, 2012). Since strong corporate control is expected to increase firm efficiency, it therefore would positively influence firm performance theoretically speaking. On the other hand taking more debt my result in a high risk of bankruptcy which affects the performance of the firm in case of slowdown in operation or increased competition which puts pressure on profitability.

Zeitun and Tian (2007) investigated the impact of capital structure on company value of Jordanian companies. They applied cross section survey and used multivariate regression model for the analysis. They found that increasing leverage level has a significant negative impact on a company's value. Mauwa, Namusonge and Onyango (2016), researched on the impact of Capital Structure on fiscal value of companies at the Rwanda Stock Exchange but failed to test for stationarity. They applied purposive sampling technique and regression analysis using SPSS version 20. They found that capital structure is negatively linked to company value. It would have been suitable to examine the stationarity using unit root so that the researcher can examine whether scheduled period's patterns can be examined from the previous trends.

2.4 The Conceptual Framework

The conceptual model is a model indicating the linkage between the variables identified for the research. H_1 indicates the link between independent variables (corporate control) and response variables (capital structure). Corporate control variables such as board structure and composition, board diversity, board remuneration, transparency, disclosures and auditing and corporate ethics are expected to have a significant effect on company performance based on return on resources and Tobin Q. This ties in with results of Black et al. (2006) who found a positive linkage between corporate governance and company value and used the same measurement variables for company value.



Figure 1. The conceptual model

Source: Author (2018).

3. Research Design

Research design is a scheme used to guide a research study to enable the study to address the research problem. It is a design of inquiry into a phenomenon which has been thought of as to enable the research to get answers to research inquiries (Dooley, 2007). Rajput and Bharti (2015) defined a research design as a procedural blueprint embraced by a researcher to respond to questions objectively, validly, economically and accurately.

The study has applied a descriptive cross-sectional design. This enabled the researcher to discover any association between corporate control, and value of companies listed at the NSE. The design was used to consider the data and the analysis required. Similar design were previously adopted by Aduda and Musyoka (2011).

3.1 Population and Sampling

The population considered consist of all the 64 companies at the NSE as at 31st December 2017. The quoted companies are preferred as they have a defined structure, a legal mandate to operate, are likely to exhibit elaborate linkages between research variables and provide a basis for determining the market value and performance in an objective manner.

The companies were obtained from NSE listings. The research adopted a census method due to the small number of qualifying companies at the NSE. Gay (2003) is of the opinion; in case of a small population in study, less than 100, then the broader population can be integrated as part of the research with a census taken. In the present research, census survey was applied as the target population was as stated above thus no sampling undertaken. This use of census fulfilled the requirement of efficiency, representativeness and reliability (Dominic & Member, 2015).

3.2 Data Collection

The research was based on secondary data for the listed companies at the NSE. The data were obtained from financial reports of the companies plus the related schedules, equity statement, and director's reports among others reports filed with the NSE. The audited financials and other necessary information were obtained from the companies' websites, NSE handbook, NSE website and in some cases directly from the company. An index was formed for corporate control. For company value, the fiscal statement was analyzed to find ROA and Tobin Q. Debt-equity ratio data was employed in calculating leverage. The research covered five years between 2013 and 2017.

A standardized structured CCI index constructed and the queries were formulated by facts extracted from the best code of practice of corporate control as per the regulatory bodies in the NSE exchange and others like OECD, CACG. The CCI were formulated as a standard proxy and based on forty three binary objective study

queries developed from the above reports. CCI ranges from 0 to 100, the assumption is that it is expected that companies inefficiently managed may perform sub-standard. (Brown & Caylor, 2004).

3.3 Operationalization and Measurement of Research Variables

Table 1 presents a list of various research variables, their operational definitions, and the measurements used to estimate these variables.

Table 1. Operationalization and measurement of research variables

Variables	Nature	Indicator	Measurements	Supported
Capital structure	Dependent Variables	Company Leverage	$\frac{\text{Total BVD}}{\text{Total BVD} + \text{MVE}}$	Solomon et al. (2013)
				Githira and Nasieku (2015)
Corporate control	Independent variables	Board Structure and Composition	CCI Sub Index A – Appendix II	Black et al. (2006)
		Board Diversity	CCI Sub Index B – Appendix II	Shleifer & Vishny (1997)
		Board Remuneration	CCI Sub Index B – Appendix II	Black et al. (2006)
		Transparency, Disclosures and Auditing	CCI Sub Index C – Appendix II	Wheeler et al. (2003)
		Corporate Ethics	CCI Sub Index E – Appendix II	Clatcher et al. (2007)

Source: Researcher (2018).

3.4 Diagnostic Tests

To determine whether the regression model is unbiased, several tests were carried out. The variables were inspected for normality through skewness, Kurtosis and shapiro-wilk tests. Skewness statistics with an interval of -3 and 3 is considered normal while in case of kurtosis, the interval should be in the range of -10 to 10 (Kline, 2010). Gujarat (2003), defines correlation analysis as a method that can be applied to find out the degree of relation between variables. Multicollinearity test was conducted with Variance Inflation Factor (VIF), its reciprocal, the tolerance was not applied in our case. Auto correlation was tested by Durbin-Watson to avoid instances of autocorrelations. A multiple regression analysis was applied using Return on Assets and Tobin's Q, as response variables. Independent variables of corporate control i.e. board structure and composition, board diversity, board remuneration, transparency, disclosures and auditing ratios were applied as independent variables.

3.5 Data Analysis

The strength and direction of variables was tested using multiple regression. Program for social sciences (SPSS) version 20 was employed in analyzing and measuring inferential as well as descriptive constructs. The hypotheses of the study were tested using simple and multiple regressions. Analysis of simple, multiple and stepwise regression and Pearson's Product Movement Correlation analysis was applied to determine size and strength of the association between the variables. Descriptive statistics such as frequencies and percentages were calculated for the main variables. The indexes were constructed for each company. The sub-indices were then regressed individually against the independent variable against each questions on the index. Mean score was computed for binary type of questions. Data was presented in form of tables. Pearson's correlation analysis was applied in measuring the degree of linear association between these variables.

A multivariate regression model was applied to test the link associated with corporate control and capital structure. The model to test hypothesis one is as follows:

$$CS = \alpha + \beta_1 CC_{it} + \varepsilon_{it} \quad (1)$$

Where CS is the Capital Structure score of parameter (Company Leverage) α is the intercept or constant, β_1 is regression coefficient, CC is the composite of corporate control (Measured by Corporate control Index (CCI)), ε is a random error term, i is a number of companies used in the sample and t is the duration of the research.

3.6 Statistical Assumption Tests

The statistical assumptions including regression and statistic applied were tested. These tests were done on independence, homogeneity, normality, linearity and co linearity. Any departure from normality was tested using Shapiro-Wilk test. Such departure can be caused by skewness or kurtosis or even both occurring at the same time. According to Razali and Wah (2011), in a scale of zero to one, data is considered normal if it falls between 0.05 and 1. Analysis of Variance was applied when testing for linearity to work out linear and non-linear elements of a variable. F significant value shows non linearity when it is below 0.05 and linearity between 0.05 and 1.

To obtain assurance that the observations noted were independent, independence error terms test was carried out. Durbin-Watson test was employed here, and this has a spread from zero to four. Observations are said to be independent when they fall between 1.5 and 2.5. Levene's test of homogeneity of variance was used to test for homoscedasticity. It measures the spread of the scores as indicated in the variance to ascertain their proximity to one another in relations to dependent variable i.e whether dependent and independent variables variances are almost the same. When this is significant at $\alpha = 0.05$ then the test is negative i.e the variances are not similar or close. Variance Inflation Factors (VIF) and its reciprocal, the tolerance are computed to check the presence of multicollinearity between the independent variables. When there is a multicollinearity, the independent variables themselves are highly correlated so it is difficult to determine each contribution to the variance observed in the independent variable (capital structure). According to Garson (2014), the maximum threshold for multicollinearity assumption should be a VIF value of 10.

The assumptions above were tested and results including the one for test of reliability were summarized in the Table 2 below. Where results are in alignment with assumptions of regression, the resulting data was tested further for statistical analysis which included hypotheses tests.

Table 2. Statistical assumption test results

	N	Normality (Shapiro-Wilk test)	Linearity (ANOVA test)	Independence (Durbin-Watson test)	Homogeneity (Levene test)	Collinearity VIF (Tolerance test)
Threshold: Assumption is met if		$P > 0.05$	$P > 0.05$	1.5 – 2.5	$P > 0.05$	VIF 10 max
Corporate control	290	0.27	0.35	2.2	0.67	7.05(0.14)
- Board structure and composition						
- Board diversity						
- Board remuneration						
- Transparency, disclosure and auditing						
-Corporate ethics						
Capital structure	290	0.57	0.35	1.82	3.25	2.17(0.46)
Leverage-Ratio of Total BVD and Sum of BVD and MVE						

Table 2 above shows the results for the statistical assumptions for the variables used in the study. With a probability greater than 0.05, Shapiro-Wilk Test indicates a normal data. If it is below 0.05, the data significantly deviate from a normal distribution. The study findings indicates that all the variables were above the 0.05 meaning that there is a normal distribution. Analysis of Variance (ANOVA) was conducted to test for linearity of the variables. Significant F value shows linearity when it is above 0.05 and non-linearity when below 0.05. Since all the variables shows a significant value F of above 0.05, the data is considered normal with a constant of the variables. Error terms test was assessed to ascertain the independence of the observations, using Durbin-Watson test. Results indicates that all value lies between 1.5 and 2.5. This confirmed that all the observations were normal. Homoscedasticity was tested using Levene's test of homogeneity of variance to measure spread of score between variables. This is considered significant at $\alpha = 0.05$. Since all variable readings are above the 0.05, the variances are not significant. The presence of multicollinearity between independent variables was tested using Variance Inflation Factors (VIF) and its reciprocal, the tolerance. Based on the reading all the variables score much lower than the maximum threshold VIF value of 10 meaning that the independent variable are not highly correlated and therefore will not cause their effect on the dependent variable (Garson, 2014).

4. Descriptive Statistics

The study objective was to examine the corporate control impact on capital structure for NSE listed companies. Variables of interest are structure and composition of board, board diversity, duties and responsibilities, salaries and allowances, disclosure and integrity and corporate ethical conduct.

4.1 Relative Performance of Corporate Control Indicators

The relative results of the tests is presented in the figure below:

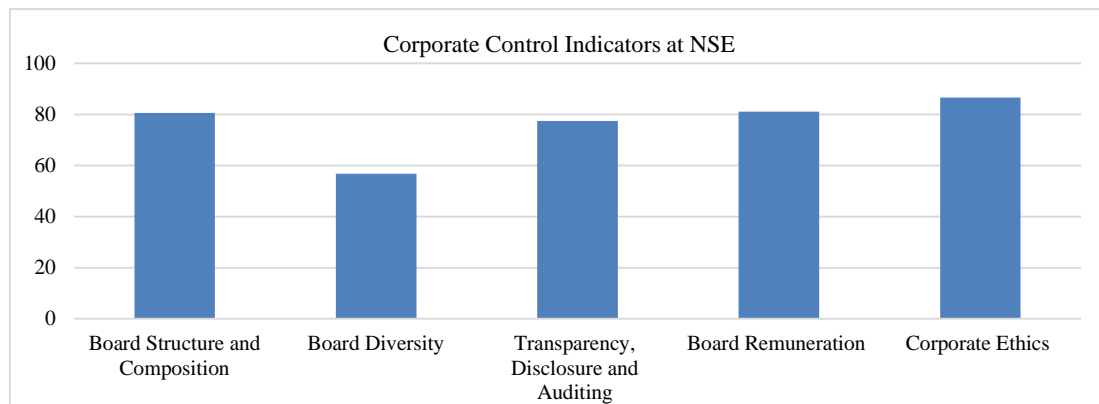


Figure 2. Corporate control mean indicators per corporate control sub constructs

The bar-chart above shows the comparative mean score on the various variables of corporate controls based on the findings of the study of corporations listed at the Nairobi Security Exchange. Corporate control implementation success seems to be highest on corporate ethics followed closely by transparency, disclosure and Auditing and board structure and composition. Board diversity seems to be lowest success where more effort on enforcement need to be put. The results shows high scores in all various indicators of corporate control. This finding in is line with recent findings of other studies in the same area.

4.2 Test of Correlation Analysis

The result of correlation analysis test was presented as per below table:-

Table 3. Correlation test results

		BORD STRUCTURE	BOARD DIVERSITY	CORPORATE ETHICS	LEVERAGE
BOARD STRUCTURE	Pearson Correlation		-.69	-.21	.59
	Sig. (2-tailed)		.19	.72	.29
BOARD DIVERSITY	Pearson Correlation	-.69		.42	-.74
	Sig. (2-tailed)	.19		.47	.15
CORPORATE ETHICS	Pearson Correlation	-.21	.42		-.75
	Sig. (2-tailed)	.72	.47		.14
LEVERAGE	Pearson Correlation	.59	-.74	-.75	
	Sig. (2-tailed)	.29	.15	.14	

The table above shows correlation analysis between explanatory variables and dependent variable. The board structure and leverage are positively related ($R=0.592$) and this implies that increasing board structure results to growth in leverage. Board diversity and capital structure as measured by leverage are negatively correlated ($R=-0.740$) indicating that increasing board diversity resulted in a decrease in leverage. Corporate ethics has a strong but negative relationship with leverage ($R=-0.750$). This implies that the study variables considered i.e corporate control index (represented by Board structure, board diversity, and corporate ethics) plays a critical role in influencing capital structure of NSE listed firms.

4.3 Corporate Control and Capital Structure

The objective under this heading is to determine the impact of corporate control on capital structure of firms listed at the Nairobi Security Exchange. Corporate control sub constructs include Board Structure and composition, board diversity, board remuneration, transparency, disclosures and auditing and corporate ethics. Corporate control Index which a composite of all the above sub variables will be assessed against capital structure variable (leverage) to establish whether the hypotheses is confirmed or not. The second hypothesis can therefore be stated as below:

H1: There is no significant linkage concerning corporate control and capital structure.

The objective is to determine the connection linking corporate control and capital structure of firms listed at the NSE. Corporate control was regressed against capital structure based on the below equation:

$$Y = \beta_0 + \beta_1 X$$

Here X symbolizes corporate control and Y embodies capital structure. The result of the regression was presented as below:

Table 4. Corporate control and capital structure relationship

Analysis model					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	
1	.576	.380	0.302	.59441	
a. Predictors: (Constant), board structure and composition, board diversity, board remuneration, transparency and others.					
Coefficients					
(Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t-value	Significance p-value
(Constant)	.345	.121		2.923	0.048
Corporate Control	.595	.181	.675	4.862	0.000
a. Dependent Variable: capital structure					
b. Predictors: (Constant), board structure and composition, board diversity, board remuneration and others.					
ANOVA					
Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression ^a	8.973	1	1.7201	5.743	.000
Residual	17.024	289	.307		
Total	25.997	290			
a. Dependent Variable: capital structure					
b. Predictors: (Constant), the board mix and its composite, board diversity, board remuneration, corporate ethics and auditing.					

From the table reading, it can be noted that the relationship between corporate control and capital structure is $R = 0.576$ which means 38% ($R^2 = 0.380$) of all the impact on capital structure can be explained by corporate control. This means 62% of the effect can be explained by other variables. The reading of the model also gives an F value of 5.743 at a significance p-value of less than 5% ($p < 0.05$), this outcome support the relationship indicating that there is a significant relationship between corporate control and capital structure.

It is evidence from this study that corporate control has a significant and positive impact on capital structure. The result is in line with the findings of Berger and Lubrano (2006) that large boards tend to go for higher leverage in order to increase the corporate value.

5. Discussion and Research Findings

5.1 The Effect of Corporate Control on Capital Structure

The intention was to find out the linkage of corporate control and capital structure. Based on this objective, the hypothesis was that there is no relationship between corporate Control and capital structure. This objective was analysed by reviewing the audited books of listed companies at the Nairobi Securities Exchange. The study did not confirm this hypothesis. The result of the study was found to be in line with current literature touching on such relationships.

The result of the study shows that corporate control is positively correlated with debt equity ratio and is a crucial tool in implementing corporate control. Lipton and Lorsch (1992) identified corporate principle that shareholders equity should be at least more than long term liability as an important determinant in corporate value creation. Corporate control and capital structure had a positive correlation coefficient. The results were supported by literature except some few cases of mix results. It is assumed that large board put pressure on management to pursue low leverage due to superior monitoring resulting in firms with large board having a lower leverage or debt to equity ratio (Berger & Lubrano, 2006). This finding was later buttressed by Berger et al. (1997) who maintained that high non-executive directors (NEDs) presence results in a higher debt level. Larger boards tend to adopt low debt policy while CEO duality has the opposite effect.

5.2 Conclusion

Corporate control directly affect long term and short term debt of a company and hence its capital structure. This is a crucial area of research as vindicated by the results as it reflect on the growth of company value and shareholders' equity. Corporate control importance is self-manifesting as evidence by the companies which adopted the best practices – how their corporate values have generally grown faster than the others. It provide

and internal structure on managing companies through setting up the board of directors with definite responsibilities and roles separate from that of management. The control mechanism envisaged by corporate control principles is strong enough to combat fraud, mismanagement and even corruption if implemented well. However, the weakness resulting from collapse of previously well performing companies like Uchumi, Nakummat, Chase bank among others have jolted capital market authority into action in re-enforcing its supervisory and oversight role while strengthening reporting's and adaptation of the best practices which have now been propped up.

High percentage of companies complied with the requirements of especially board size and its composition, separate and definite roles in management and transparency and disclosures of information. Although a number of companies were still struggling to find the optimal capital structure majority seems to oscillate within to the 3:1 ratio of debt to equity rule of thumb which may not be appropriate for all companies particularly high growth ones and mature companies. CMA has also put in place mechanism to continually develop the market and liaise with author authorities to ensure long term funding are fully fortified with quality assets to reduce the over reliance on debt - which has resulted in frequent financial distress - while encouraging raising equity through easing IPO requirements and foreign investment in equity market.

The study results and discussion shows existence of significant and positive linkage between corporate Control and capital structure. The same conclusion was supported by previous research findings (Shleifer & Vishny, 1986)

5.3 Contribution to Knowledge

The study provides a base for listed companies to adopt corporate control principle wholly in order to optimize capital structure which would ensure maximization corporate value growth. This would also enable them to adopt the base structure that provide a framework for their expansion into other regions and countries with a clearly defined reporting lines and functions which are aligned to board and shareholders expectation.

5.4 Limitation of the Study

The study considered only one variables affecting capital structure but there may be other variables that may still affect capital structure like ownership structure, uniqueness of the industry, stage of growth in the firm's life cycle, profitability level among others. On corporate control, the study only considered five variables but they could be other relevant ones like gender, education level. The secondly, study limited itself to companies listed at the NSE within the last five years which may make it not be generally applicable to other countries. The population was again limited to listed companies which may pose a challenge to external validity and replicability outside the country.

5.5 Recommendation and Policy Implication

It provides, therefore, a sound base for policy implementers to have control practices in an effort to attain optimal capital level. It also provides them with a clear structure and well defined responsibilities of Chairman, CEO, board of directors and key management as it relates to optimizing the corporate value which when adopted will not only enhance but also provide a standardize framework as a point of reference by investors and regulators in monitoring compliance and performance thereby making it easy to pin point weaknesses before serious negative effect is realized. It involves optimal board membership, separation of roles and position in leadership, adequate disclosure and reporting. It also emphasized the need to improve compliance through change of corporate culture that is grounded on understanding of the importance and value derived by individual company through complying and not based on force alone. The key decision makers should also be adequately equipped with knowledge and skills through continues training programme on issues touching on governance, compliance, capital structure and performance for them to be able to optimize return to shareholders. The regulatory authorities and the government should improve on firms' oversight regarding capital structure and control and enhance regulations to close the gaps resulting in misappropriation and poor decision making by the management and board leading to financial distress and corporate failures.

5.6 Suggestion for Future Research

Future researchers need to incorporate other measures of capital structure in addition to leverage considered above, these may include long term and short term debts level, debt equity ratio and total debt to equity ratio among others. They may also consider other variables that may affect capital structure in addition to corporate control considered above, these may include ownership structure, qualification and experience of management among others. They should also expand the study to look at regional markets like COMESA or even do more detailed studies focusing on individual segments of each market under study to asses' variations if any in result

obtained. While this study has focused on corporate control on capital structure among listed firms in Kenya, future studies could be done on comparative analysis with other African Countries and other regions as well as between different segments. The study focused only firms listed at the NSE, future research should incorporate also large firms which are not listed like Haco Industries, Nakummat Supermarket among others to get a more balance picture.

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