

IMPACT OF MANAGERS' CHARACTERISTICS ON CAPITAL STRUCTURE AMONG FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA

Leah Jemutai Barno

Phd Student, School Of Business and Economics, Moi University, Kenya

jemutaileah@yahoo.com

Abstract

The main purpose of this study was to establish the effect manager's characteristics on capital structure among firms listed in Nairobi Securities Exchange. Static Trade-off Theory and Pecking Order Theory informed the study. This study adopted time series analytical approach. The study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2008 to 2013. These companies must have been trading actively and consistently (not suspended) for at least six (6) years. The study thus utilized data from 39 companies as the other 14 companies either had been recently listed or had inconsistently traded in the NSE. The study was testing normality and linearity. Multiple Regressions was used to test hypothesis. The study findings showed that age ($\beta_1 = -0.228 < p < 0.05$) and gender ($\beta_2 = -0.152, p < 0.05$) has a negative and significant effect on capital structure. The study therefore recommends that more female managers be appointed. This will promote gender equality in management and thus give women an opportunity to share their wide array of experiences and talents in the organization. The study also recommends that managers need to have a long tenure so that they can offer deeper understanding of the company's business.

Keywords: Age, gender, manager's characteristics, capital structure, Kenya

INTRODUCTION

One of the important decisions made by Board of Directors is on capital structure. Capital structure has long been linked to the firm's profitability and performance (Abor, 2005; Arbiyan and Safari, 2009; Chakraborty, 2010). According to Tarus and Ayabei (2014), managers have

different characteristics such as age, and gender which contribute to firms' financing option among others. 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). In management, managers monitor from agency perspective and often diversity of skills are needed for effective management of companies.

Another observable characteristic likely to affect the capital structure of firms include ethnic diversity. Hambrick *et al.*, (1996) discussed advantages of having ethnic diversity in the management of an organization. Ethnic diversity broadens knowledge, ideas 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.

A number of studies have discussed managerial character and capital structure. In his study in United States, Hackbarth (2008) suggests that managerial traits, such as growth and risk perception biases, are important factors for capital structure decisions such as debt- equity mix and debt issuance decisions. Managers with growth perception bias overestimate the growth of future earnings generated by their company and hence view external finance as unduly costly. Graham and Harvey (2001) found that one of the most important concerns of CEOs is financial flexibility. Bertrand and Schoar (2003) showed that a significant extent of the heterogeneity in investment, financial, and organizational practices of firms can be explained by manager "fixed effects". Managers with risk perception bias believe their firm is less risky than it actually is and therefore less likely to experience financial distress. Lewellen (2002) found that risk-aversion of managers helps explain a firm's choice between debt and equity. A significant extent of the variation in investment, financial and organizational practices of firms can be explained by the presence of manager fixed effects. According to Bulent *et. al.*, (2013) most studies have given much attention to the developed countries, such as United States, leaving a dealt gap in the existing literature on the determinant of capital structure in emerging economies such as Kenya. As such, this study attempted to determine the effect of board diversity on capital structure

Capital structure decisions are critical for a firms' success. The decisions on structuring the mix of financing is largely a management responsibility, however with increasing cases of agency problems Boards of Directors act as monitors in such decisions (Bebchuk, 2004).

Indeed, Board of Directors approves and ratifies management decisions, which include capital structure decisions, and so the role of board in the decision of the capital structure cannot be ignored (Gulamhussen and Santa, 2011). The government and the private sector have invested heavily in creating an enabling environment for doing business in Kenya 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. Some of the failures are associated with poor capital structure decision making. Momentous efforts to revive the ailing and liquidating companies have focused on financial restructuring (Kibet *et al.*, 2011). However managers and practitioners still lack adequate guidance for attaining optimal financing decisions yet many of the problems experienced by the companies put under statutory management were largely attributed to financing (Chebii *et al.*, 2011). This situation has led to loss of investors' wealth and confidence in the stock market.

A growing body of empirical evidence suggests that manager-specific characteristics significantly influence firms' financing decisions (Graham and Harvey, 2001, Bertrand and Scholar, 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. Despite the recognized importance of the effects of these personality traits on corporate performance and behavior 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 behavioral outcomes, and hence their impact on capital structure decisions, is limited (Haynes and Hillman, 2010).

Most research on what determines capital structure has been done on firm characteristics and corporate governance. According to the studies done Sinan (2010) on how firm characteristics affect capital structure the study looked at various firm level characteristics such as, profitability, size, growth opportunities, asset tangibility, non-debt tax shield, volatility and liquidity on capital structure. 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. Magara (2012) did a study on capital structure and its determinants at the Nairobi Securities Exchange. The study sought to find out if firm size, tangibility and growth rate affect firms capital structure. This study did not take into manager characteristics factor that can affect capital structure decision making. This

study therefore sought to fill this research gap by answering one research question: How do Manager Characteristics affect Capital Structure?

H_{01} : *There is no significant effect of manager's gender on capital structure of a firm.*

H_{02} : *There is no significant effect of Manager's age on capital structure of a firm.*

LITERATURE REVIEW

The firm's capital structure initially consists of equity, infinite maturity and non-callable long-term debt and non-discretionary short-term debt that is associated with the firm's working capital requirements such as the financing of inventories, accounts receivable, and employee wages. The capital structure is how a firm finances its overall operations and growth by using different sources of funds (Baird, 2003).

According to Hovakimian, *et. al.* (2004), trade off theories of corporate capital structure is built around the concept of target capital structure, which balances various costs and benefits of debt and equity. The benefits of debt include the tax deductibility of interest and the reduction of free cash flow problems whereas the costs of debt include potential bankruptcy costs and agency conflicts between stockholders and bondholders (Fama and French, 2002). At the optimum leverage, the benefit of using debt finance just offsets the cost. Dynamic versions of the tradeoff theories posit that companies would undo the effects that random shocks have on their capital structures by actively re-adjusting them towards their target levels (Reinhard and Li, 2010).

A survey by Graham and Harvey (2001) showed that 81% of firms consider a target debt ratio or a target range when making their financing options. Other studies have empirically analyzed how long it takes companies that try to adjust their capital structures towards their desired capital structure target levels (Antoniou, *et. al.*, 2008; Fama and French, 2002; Flannery and Rangan, 2006). Depending on the regression model and technique used, these studies typically found that companies adjust their capital structures and with a speed of around 10-30 per cent per year towards their capital structure targets.

The manager has discretion in financing and effort, and receives dynamic incentives through explicit contracts with shareholders. Long-term debt declines with the manager's ability, her inside equity stake, and the firm's long-term risk, but increases with its short-term risk. Implementation of the manager's contracts also generates additional predictions for the effects of manager and firm characteristics on short-term debt and total debt. Short-term and total debt decline with the manager's ability, increase with her inside equity stake, decline with the firm's short-term risk, but vary non-monotonically with its long-term risk. With the exception of the

predicted relation between short-term debt and inside equity, we show significant support for all the above implications in our empirical analysis (Berk, 2010).

Effect of Managers' Gender on Capital Structure Decision Making

Gender differences in attitudes towards risk and in risk related behavior and their effect on capital structure have long been studied in the economics and psychology literatures (Cadsby and Maynes, 2005; Eckel and Grossman; 2002, 2004; and 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, merger and acquisition decisions, and going public decisions (Huang and Kisgen, 2008).

There are systematic differences in the choice of financial reporting policies between female and male executives. Specifically, female CFOs follow a more conservative approach in their financial reporting compared to their male counterparts. Subsequent to the change from male to female there will be an increase (decrease) in the accounting conservatism of the firm (Mian, 2001).

With regard to the gender differences in individual business decision making, laboratory tests and field studies are widely used in economic literature. For example, by using abstract gamble experiments, Fishman, (2007) report significant differences between male and female college students towards gambling attitudes. However, results from experiments with a contextual environment are mixed. Schubert, *et al.* (1999) and Kruse and Thompson (2003) found out that there is no systematic differences in risk attitudes towards capital structure decisions for their subjects.

The evidence from field studies also demonstrate gender differences in risk related behavior. For example, study betting decisions on horse and dog races, and they find that women are more risk-averse than men in their betting habits. Using data from the Survey of Consumer Finances, Jianakoplos and Bernasek (1998) found that single women are more risk-averse than single men in household holdings investment decisions. Sundén and Surette (1998) examined gender differences in the allocation of defined contribution plan assets, and they found women are less likely to hold their assets mostly in stock than men.

Bernasek and Shwiff (2001) found that women allocate their pension more conservatively than men. In the managerial setting, several studies, such as Atkinson *et al.* (2003) and Niessen and Ruenzi (2007), focus on mutual fund managers and compare the performance and investment behavior of male and female fund managers. In general, they

found female fund managers are more risk-averse than male fund managers in their investment decisions.

Studies that are more recent begin to investigate whether gender of corporate executives or directors affect corporate decision-making. Huang and Kingen (2008) investigated how gender differences of CFOs affect various corporate decisions. They found out that firms under the control of female CFOs grow slower than firms under the control of male CFOs. In addition, female CFOs are less likely to make significant acquisitions and are less likely to issue debt. Furthermore, the capital structure adjust speed under the control of female executives is slower than that under the control of male executives.

Levi *et al.* (2008) examined whether the gender of CEOs or corporate directors plays a role in the pricing of and returns on mergers and acquisitions. They found that bidders with female CEOs paid much less premium than bidders with male CEOs. They also found that the presence of female directors on the board is inversely related to bid premiums. Bharath *et al.*, (2008) investigated gender differences in insider trading behavior of senior corporate executives. They found that although both female and male executives make positive returns from insider trading, males earn about twice as much as females, and males trade more than females. They found that risk-aversion cannot be the sole explanation of the different inside trading behavior between men and women.

Recent studies also attempts to link the gender of top executives to firm performance and investment-cash flow sensitivity, and how market reacts to the new appointments of female executives or directors. For instance, Welbourne *et al.* (2007) examined the effect of having women on the top management teams of IPO firms on short term and long-term firm performance. Results indicated that the presence of women executives have a positive association with the firms' short-term performance, 3-year stock price growth, and growth in earnings per share.

Peng and Wei (2007) investigated how the gender of CEO executives affects investment-cash flow sensitivity. They found that corporate investments made by male CEOs are more sensitive to cash flow, particularly in the equity dependent companies, compared to investments made by female CEOs. Mohan and Chen (2004) examined whether there is a gender effect in the IPO under pricing. Their study does not find significant differences in under pricing between IPOs led by female and male executives. They also found female-led and male-led IPOs do not have significant differences in firm characteristics. Lee and James (2007) tested how investors react to the appointments of female CEOs. They found out that shareholder reactions to appointments of female CEOs are more negatively compared to appointments of male CEOs. Further, this negative market reaction to female executive appointments is

mitigated if female CEOs are promoted within the firms. However, Farrell and Hersch (2005) did not find a significant wealth effect of appointments of new female directors on the boards.

Effect of Managers' Age on Capital Structure Decision Making

Extant literature on individual risk-taking behavior showed that demographic and socioeconomic factors influence individual risk tolerance, 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. It is generally believed that males are more risk tolerant than females and that risk taking tends to decrease with age and increase with education level, higher levels of income, wealth, professional experience, and sophistication (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 (Graham, *et al* 2010 and Wang, *et al.*, 2011). He is the one that can make the decision himself, or delegate it to a subordinate, who in the significant majority of cases is the CFO.

Niederle and Vesterlund (2007) examined whether the age difference affects the capital structure decisions of managers. They concluded that younger managers more frequently select to operate in more competitive environment than older manager 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) in his study he found out that 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. They assumed that qualified board size translates into strong pressure from the corporate board to make managers pursue lower leverage or debt ratio rather than have larger boards.

The results of Wen *et al* (2002) and Abor (2007) also showed a positive relationship between age of the qualified board and financial leverage (capital structure). Their findings suggested that highly qualified boards, which are more entrenched due to superior monitoring by regulatory bodies, pursue higher leverage to raise company value. Another reason is that qualified board membership could result in difficulty in arriving at a consensus in decision-making. These conflicts arising from bigger board size have the tendency of weakening corporate governance resulting in high leverage.

Summary

According to Tarus and Ayabei (2014), managers have different characteristics such as age, gender diversity that contribute to firms' financing option. These specific characteristics have been seen to contribute significantly to a firm's capital structure decisions. The literature reviewed showed 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). However, most of these studies have not directed linked managers' characteristics with capital structure. In addition, most of those have been done in developed countries like US, Japan among others and few have been done in Africa.

Theoretical framework

Both theoretical and empirical capital structure studies have generated many results that attempted to explain the determinants of capital structure. The static trade-off theory of capital structure states that optimal capital structure is obtained where the net tax advantage of debt financing balances leverage related costs such as bankruptcy. Um (2001) suggested that a high profit level gives rise to a higher debt capacity and accompanying tax shields. Hence, it is expected that a positive relationship should exist between profitability and financial leverage. Firms with high levels of tangible assets will be in a position to provide collateral for debts. If the company then defaults on the debt, the assets will be seized but the company may be in a position to avoid bankruptcy. It was expected that companies with high levels of tangible assets are less likely to default and took on relatively more debt resulting in a positive relationship between tangibility and financial leverage.

The tradeoff theory of capital structure argued that capital structure is determined by the tradeoff between the benefits of debt tax shields and the costs of financial distress. A number of studies examined the quantitative effects of the tradeoff 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).

Other theories included agency theory of capital structure was 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) investigated the effects of agency conflicts on capital structure in dynamic frameworks with risk-neutral agents and complete contracting. Subramanian (2008) developed a continuous-time agency model to show how a risk-averse manager's discretion in dynamic financing, effort and project choices affects capital structure.

METHODOLOGY

The Study

This study adopted time series analytical approach. The researcher did not visit individual firms under study to administer any questioner but instead used secondary data from the Nairobi Securities Exchange handbook, published financial statements for the firms under study. the study was conducted in firms listed on the Nairobi Securities Exchange for the period ranging from 2008 to 2013. These companies must have been trading actively and consistently (not suspended) for at least six (6) years. Firms in the study were only included companies in MIMS and AIMS. The total population for the study were 60 companies. The study used census technique to collect data from 39 companies as the other 14 companies had either been recently listed or had inconsistently traded in the NSE and the study excluded banks because they do not disclose some of debts.

Data Source

Data for the study was collected from the annual reports of firms listed on the NSE from 2008 to 2013 which was obtained from www.africanfinancial.com. Data was collected on each of these variables. Data on the independent variables and dependent variable were collected from the listed companies' annual reports

Measurement of Variable

Dependent Variable

Capital structure is measured as ratio of debt to equity (Rafique, 2010). In the prior studies for example in (Al Shammari *et al.*, 2007, Ali *et al.*, 2004) capital structure is tested using Debt to Assets or Debt to Equity. For this research ratio of Debt to Equity was utilized in measuring capital structure.

Independent variable

Managers' age is measured using actual age of managing directors in years (Erhardt *et al.*, 2003; Marinova *et al.*, 2010; Rose, 2007) .Managers' gender is measured as 1 if the manager is male and 0 if the manager is female.

Data Analysis Approach

The study used panel data, Panel data has fixed effect model (FEM), random effects model (REM), Based on the reviewed literature, this study assumed that four variables affect the capital structure. These include manager's age, gender, tenure and education. Empirically,

taking the above factors into consideration, the panel fixed effect regression model in this study follows the works of Thairu, (2010), Hsiao, 2007, Inocencio *et al.*, (2007), and Bos *et al.*, (2005) where the model is specified as:

The regression model which assumed linearity used was

$$y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon \dots \dots \dots 3$$

Where,

Y = The dependent variable (capital structure) measured as ratio of debt to equity

β_0 = Constant

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

t = time

X_1 = Managers gender

X_2 = Managers' age

X_3 = Manager Education

X_4 = managers tenure

Table 1. The Hypotheses

Symbol	Name	Definitions of variables	Expected sign
X_1	Managers gender	1 if the manager is male and 0 if the manager is female	+, more female are risk aversers hence are likely to use more equity than female counter part
X_2	Managers' age	actual age of managing directors in years	- , younger managers are likely to use loan as financing options

FINDINGS

Description of Managers Age and Capital Structure

The study findings indicated that the oldest manager had 70 years of age and the youngest had 31 years. Further, the managers had worked for a maximum of 28 years and a minimum of 1 year. Finally, the minimal capital ratio was at 0 while the maximum was at 3.07. The mean of the capital was 1.3245 with a standard deviation of 0.20718 as indicated in Table 2 below.

Table 2. Summary of Managers Age, Capital Structure in NSE in All Years

	Mean	Std. Deviation	Min	Max	Skewness	Kurtosis
Age	48.1818	7.77498	31	70	0.383	0.005
Capital	1.3245	0.20718	0	34.03	5.843	38.321

Frequency Table for Managers Gender and Education

The study findings in Table 3 indicated that in 2008, 7 female and 21 male managing directors. This shows that though there were some female managers the majority were male in companies listed at the NSE. In the same year, 17 of the managing directors had low level of education implying that majority of the managers of the firms listed at the NSE had only diploma and certificate. Contrary to 2008, in 2009 additionally, 17% of the firms were managed by female managers with majority of them having a Master's degree. Further findings revealed that in 2010, 20 of the firm were managed by female managers. This shows that though there were few female managers in companies listed at the NSE. In the same most of the managing directors had high education level (14). This infers that majority of the managers were holders of a Masters' degree. In 2011, most (18) of the managing directors were low level of education while only 2 were female managing directors. Similarly, in 2012 and 2013 there were 6 and 8 female managing directors consecutively with majority of the managers having a Masters' degree. Finally, on average there were 37 female managers and 117 male managers with the 25 firms. This shows that there were very high gender disparity among firms in terms of managerial positions, this despite government advocating for affirmative action. In addition, 91 of managers had with masters PhD and Degrees with 63 managers having certificate and diplomas .

Table 3. Managers Gender and Education

		Year						Total
		2008	2009	2010	2011	2012	2013	
Gender	Male	19	11	20	23	23	17	113
	Female	6	14	5	2	2	8	37
	Total	25	25	25	25	25	25	150

Inferential Analysis

Hausman Test Model Selection

The Hausman test (1978) is used to statistically make the choice between fixed and random effect models. The main purpose of this common test in the literature is to check for strict exogeneity, and works by facilitating the differentiation between these two approaches by examining for correlations between the independent variables and the individual random effects. The results of this test can be interpreted as follows. If the correlation between X variables and ϵ_i is found to be:

- i. Significant or less than 0.05, then the fixed effect approach is preferred.
- ii. Insignificant or more than 0.05, then the random effect approach is preferred.

- iii. b = consistent under H_0 and H_a ; obtained from xtreg
- iv. B = inconsistent under H_a , efficient under H_0 ; obtained from xtreg
- v. Test: H_0 : difference in coefficients not systematic
- vi. $\chi^2(4) = (b-B)'[(V_b-V_B)^{-1}](b-B) = 0.49$
- vii. $\text{Prob}>\chi^2 = 0.9740$

Table 4. Hausman Model Selection

	---- Coefficients ----			
	(b)	(B)	(b-B)	sqrt(diag(V_b-V_B))
	Fixed	random	Difference	S.E.
Age	-0.11162	-0.11013	-0.00148	0.009581
Gender	-1.70519	-1.71227	0.007082	0.345917

Therefore, above Hausman's test result, the random effect model is chosen in the primary analysis because the value for $\chi^2 = 0.49$, $\text{Prob}>\chi^2 = 0.9740$ which clearly indicates that $\text{Prob}>\chi^2$ is higher than 5% and is insignificant for both the models which shows that the assumptions for the fixed effects estimators are not feasible and statistic favors random effect. Therefore, it is appropriate to use regression using random effects model to test the hypotheses of this study. Therefore, the regression has been run by using random effect. Given the above discussion, this study employed a GLS random effects model to examine the study's hypotheses. However, in order to check the results' robustness and sensitivity to alternative specifications, the fixed effects regression was used in the sensitivity analysis section.

Fixed Effect Model

When performing fixed effects model, variation is found in either the cross-section data or the time-series data. This indicates that the intercept differs and is varying cross-sectional or over time, while the other remains constant. A fixed effect model is conducted to control for residual values that may otherwise distort the values and dummy variables are created to be able to differ between time and cross-section units. The null hypothesis of fixed effect is that the intercept of the dummy variables has the same parameter. If the null hypothesis is rejected, the assumption about the same intercept cannot be used. If the values of cross-section/Period F and Chi-square in the model are significant, the null hypothesis is rejected and fixed effect is an appropriate model. If they are not significant, the dummy variables are excluded from the regression and the assumption of having the same parameter for all dummy variables is true and OLS can be used (Brooks, 2008).

Table 5. Fixed Effect Results

Fixed-effects (within) regression	Number of obs	=	150
Group variable: yeartime	Number of groups	=	6
R-sq: within = 0.1477	Obs per group: min =		25
between = 0.9042	avg =		25.0
overall = 0.1732	max =		25
	F(4,140)	=	6.07
corr(u_i, Xb) = 0.2020	Prob > F	=	0.0002

capital	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
age	-.1116154	.0443687	-2.52	0.013	-.1993348	-.023896
gender	-1.705185	.8200435	-2.08	0.039	-3.326455	-.0839151
education	-.2800483	.6830656	-0.41	0.682	-1.630506	1.070409
tenure	.3686532	.0845355	4.36	0.000	.201522	.5357843
_cons	4.78903	2.321179	2.06	0.041	.199935	9.378126
sigma_u	.33807774					
sigma_e	3.9825198					
rho	.00715482	(fraction of variance due to u_i)				

F test that all u_i=0:	F(5, 140) =	0.16	Prob > F = 0.9765
------------------------	-------------	------	-------------------

The study findings show the level of significance on the variables, it also provides the coefficients. According to the regression equation, taking all factors into account (Tenure, Gender, Education and age) constant was 4.478903. Hypothesis testing was based on coefficients beta and p-value to test whether the hypotheses are rejected or not.

H_{01} : *There is no significant relationship between age and capital structure*

The results of Fixed Effect Results, as presented in Table 4.4 revealed that age has a negative and significant effect on capital structure with a beta value of $\beta_1 = -.1116154$ (p-value = 0.013 which is less than $\alpha = 0.05$). Therefore, the researcher rejects the null hypothesis indicating increase in managers' age reduces capital structure. Additionally, it is also evident that individuals' ability and willingness to take risks is shaped by their age. This infers that managers' age has an influence on capital structure decision making. Therefore, since risk taking decreases with age, older managers are reluctant to take risks and this impedes on the capital structure (Leland, 2001).

H_{02} : *There is no significant relationship between gender and capital structure*

The results of Table 4.4 showed that the standardized coefficient beta and p value of gender were negative and significant (beta = -1.705185, p=0.039< 0.05). Thus, the researcher rejects the null hypothesis and it is accepted that, gender has a negative and significant effect on

capital structure. In addition, presence of male managing directors reduces capital structure. Huang and Kingen (2008) found out firms under the control of female CFOs grow slower than firms under the control of male CFOs. Further, Welbourne *et al.* (2007) state that having women on the top management of IPO firms has a positive association with the firms' short-term performance, 3-year stock price growth, and growth in earnings per share. Contrary to this, Mohan and Chen (2004) found no significant differences in firm characteristics for female-led and male-led IPOs.

CONCLUSION

The study has established that there is a significant relationship between the age of the managers and the capital structure. The results also indicated that majority of the managers are of a mature age as they are tasked with making important decisions. Since majority of them are old, their ability and willingness to take risk has declined over time and this has had an influence on the capital structure decision-making skills.

The study also concluded there is a negative and significant relationship between the gender of the managers and capital structure. The study concludes that the majority of the managers are male. Previous findings show a mixed relationship between managers' gender and capital structure. For instance, if the share of females in management is high, the firm can be more likely to hold less risky capital.

RECOMMENDATIONS

This study established that the majority of the managers were male and that there is a negative significant relationship between the gender of the managers and capital structure decision-making. The study therefore recommends that more female managers be appointed. This promotes gender equality in management and thus gives women an opportunity to share their wide array of experiences and talents in the organization.

The study also established that managers' tenure has a positive influence on capital structure decision making. There is therefore need for managers to have a long tenure so that they can offer deeper understanding of the company's business. It would also be prudent to re-elect managers that have served more than 9 years so that the firm can benefit from their wealth of experience.

Further, the managers' age had a negative influence on capital structure decision making. Since majority of the managers were old, their need to diversify the management so as to benefit from the skills of the young. Despite the age of the managers, the managers

appointed need to be conversant with the dealings of the firm and have had such experience to be at the top management.

This study may contribute to the tradeoff theory and pecking order theory by analyzing the effects of managerial discretion on capital structure. Apart from reconciling growing evidence on the effects of manager characteristics on financing decisions (Berger *et al.* (1997), this study, also may sheds light on the relative importance of managers gender, education, age, tenure and manager-shareholder agency conflicts in the determination of capital structure.

This study sought to establish the effect of manager's characteristics on capital structure among 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 may enable the organizations establish how their culture contributes to the performance of the firm and thus make changes accordingly.

REFERENCES

- Abor, J. (2007) 'Determinants of the Capital Structure of Ghanaian Firms,' African Economic Research Consortium, AERC Research Paper 176, Nairobi, March 2007
- Abor, J., (2005). "The effect of capital structure on profitability: empirical analysis of listed firms in Ghana". *Journal of Risk Finance*, 6(5), pp. 438-45
- Antoniou, A., Guney, Y. and Paudyal, K. (2008), 'The determinants of capital structure: capital market oriented versus bank oriented institutions, *Journal of Financial and Quantitative Analysis*, 43, 59–92
- Atkinson, S.M., S.B. Baird, and M. B. Frye. 2003. "Do female mutual fund managers manage differently?" *Journal of Financial Research*, 26 (1): 1-18.
- Berger, P. G., Ofek, E. and Yermack, D. L. (1997). Managerial Entrenchment and Capital Structure Decisions, *Journal of Finance*, 52(4), 1411-1438.
- Berk, (2010), "Mutual Fund Flows and Performance in Rational markets," *Journal of Political Economy* 112, 6, 1269-1296.
- Bertrand, M. and A. Schoar. November 2003. "Managing With Style: The Effect of Managers on Firm Policies." *Quarterly Journal of Economics* 118(4): 1169–1208
- Bharath, S. T., J. Sunder, and S. V. Sunder. 2008. Accounting Quality and Debt Contracting. *The Accounting Review* 83 (1): 1–2
- Cadsby, C. Bram and Elizabeth Maynes, (2005) "Gender, Risk Aversion, and the Drawing Power of Equilibrium in an Experimental Corporate Takeover Game," *Journal of Economic Behavior and Organization*, 56, 39–59
- Chakraborty I (2010) Capital structure in an emerging stock market: The case of India. *Research in International Business and Finance*. 24:295-314.
- Chen, J., 2004. Determinants of capital structure of Chinese-listed companies, *Journal of Business Research* 57, 1341-1351.

- DeMarzo, Peter, and Michael Fishman, 2007a, Agency and optimal investment dynamics, *Review of Financial Studies* 20, 151–188.
- DeMarzo, Peter, and Michael Fishman, 2007b, Optimal long-term financial contracting, *Review of Financial Studies* 20, 2079–2128.
- DeMarzo, Peter, and Yuliy Sannikov, 2006, Optimal security design and dynamic capital structure in a continuous-time agency model, *Journal of Finance* 61, 2681–2724
- Eckel, Catherine C., and Grossman Philip J. 2002. Sex differences and statistical stereotyping in attitudes toward financial risk. *Evolution and Human Behavior* 23(4): 281-95.
- Fama, E. F. and K. R. French. 2002. "Testing Trade-Off and Pecking Order Predictions about Dividends and Debt." *Review of Financial Studies* 15: 1–33.
- Farrell, Kathleen A., and Philip L. Hersch. 2005. "Additions to Corporate Boards: The Effect of Gender." *Journal of Corporate Finance* no. 11 (1/2):85–106
- Fischer, E. O., R. Heinkel, and J. Zechner. 1989. "Optimal Dynamic Capital Structure Choice: Theory and Tests." *The Journal of Finance* 44: 19–40.
- Flannery, MJ and Rangan, KP. (2006), 'Partial adjustment toward target capital structures', *Journal of Financial Economics*, 79, 469–506.
- Francoeur, C., R. Labelle and B. Sinclair-Desgagné:2008, 'Gender Diversity in Corporate Governance and Top Management', *Journal of Business Ethics* 81(1),83–95
- Goldstein, R., N. Ju, and H. E. Leland. 2001. "An EBIT-Based Model of Dynamic Capital Structure." *Journal of Business* 74: 483–512.
- Graham J. and C. Harvey, 2001. "The Theory and Practice of Corporate Finance: Evidence from the Field," *Journal of Financial Economics* 60 (Nos. 2–3, May), 187–243
- Graham, J. R., Harvey, C. R., & Puri, M. (2010). Capital Allocation and Delegation of Decision-Making Authority within Firms. In SSRN
- Green C., Murinde V. and Suppakitjarak J., (2002). Corporate Financial Structures in India economics department. Finance and development research programme working paper series.
- Green CJ, Kimuyu P, Manos R, Murinde V. 2002. How do small firms in developing countries raise capital? Evidence from a large-scale survey of Kenyan MSEs. Finance and Development Working Paper No. 54. University of Manchester: Manchester
- Gulamhussen, M.A, Santa, F.S., (2011). Women in bank boardrooms and their influence on performance and risk-taking.
- Hackbarth, Dirk, 2008, Managerial traits and capital structure decisions, *Journal of Financial and Quantitative Analysis* 43, 843–882
- Haynes, K.T., & Hillman, A.J. (2010). The effect of board capital and CEO power on strategic change. *Strategic Management Journal*, 31(11), 1145–1163
- He, Z. "A Model of Dynamic Compensation and Capital Structure," *Journal of Financial Economics*, 100 (2011), 351–366.
- Hennessy, C. and Whited, T. (2005). "Debt Dynamics," *Journal of Finance* 60, 1129-116
- Hovakimian, Armen, Gayane Hovakimian and Hassan Tehranian, 2004, Determinants of Target Capital Structure: The Case of Dual Debt and Equity Issues, *Journal of Financial Economics* 71, 517-540.
- Huang, J., and D. J. Kisgen. 2008. Gender Differences in Corporate Financial Decision Making. Unpublished working paper, Boston College
- Jianakoplos, N. A., Bernasek, A. (1998) "Are Women More Risk Averse", *Economic Inquiry*, Vol. 36, 620-630
- Kruse JB, Thompson MA (2003). Valuing Low Probability Risk: Survey And Experimental Evidence. *J. Econ. Behav. Organ.*, 50(4): 495-505

- Lee, Peggy M., and Erika Hayes James, 2007, She'-e-os: Gender effects and investor reactions to the announcements of top executive appointments, *Strategic Management Journal* 28, 227-241.
- Leland H., Goldstein, R., and Ju, N., 2001, An EBIT-based model of dynamic capital structure, *Journal of Finance*, 74, 483-512
- Leland, H. E. and K. Toft. 1996. "Optimal Capital Structure, Endogenous Bankruptcy, and the Term Structure of Credit Spreads." *The Journal of Finance* 51: 987–1019.
- Mian, S. 2001. On the Choice and Replacement of Chief Financial Officer. *Journal of Financial Economics* 60:143- 175
- Mohan, N. J., and C. R. Chen. 2004. Are IPOs Priced Differently Based upon Gender? *Journal of Behavioral Finance* 5:57-65
- Myers C. Stewart, Majluf S. Nickolas, 1984. Corporate financing and investment decisions when firms have information that investors do not have, *Journal of financial economics*, 13.
- Myers, SC. (2001), 'Capital structure,' *Journal of Economic Perspectives*, 15, 81–102
- Niederle, M. and L. Vesterlund. 2007. Do women shy away from competition? Do men compete too much? *Quarterly Journal of Economics* 122(3): 1067–1101
- Niessen, A. and S. Ruenzi. 2007. "Sex matters: gender and mutual funds." CFA Working Paper No: 06-01, University of Cologne.
- Reinhard L, Li S.(2010). A note on capital structure target adjustment – Indonesia evidence. *International Journal of Management Financial*. 6(3): 245- 259.
- Strebulaev, I. 2007. "Do Tests of Capital Structure Theory Mean What They Say?" *The Journal of Finance* 62(1747–1787).
- Tarus, D. K. and Ayabei, K. (Forthcoming, 2014), Board Composition and Capital Structure in Kenya, *Managerial Finance* (Accepted).
- Tarus, G. and Ayabei, T. (2014). The theory of capital structure, *Journal of Finance*. 2014
- Um, T., 2001. Determination of Capital Structure and Prediction of Bankruptcy in Korea, unpublished PhD thesis. Cornell University
- Wen, Y., Rwegasira, K. and Bilderbeek, J.: 2002, 'Corporate Governance and Capital Structure Decisions of Chinese Listed Firms', *Corporate Governance: An International Review*, 10, 2, 75-83