

EFFECT OF MANAGERS' DEMOGRAPHIC ATTRIBUTES ON CAPITAL STRUCTURE AMONG FIRMS LISTED IN NAIROBI SECURITIES EXCHANGE, KENYA

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Abstract

The current study intended to determine the effect manager's demographic attribute on capital structure among firms listed in Nairobi Securities Exchange, Kenya. 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. 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. Fixed and random model findings showed that education ($\beta_1 = -0.044$, $p < 0.05$) has a negative and significant effect on capital structure, while manager's tenure has a positive and significant effect on capital structure ($\beta_1 = 0.5$, $p < 0.05$). 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: Tenure, Education, Capital Structure, Manager's Demographic Attribute

INTRODUCTION

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 and Ema, 2012).

Making a wrong mix of finances employed in the firm might seriously affect the performance and survival of the business enterprise. However, firms financing decisions involve a wide range of policy issues, which may be outside the direct control of a firm's management, and they have implications for capital market growth, security price determination, regulation, and interest rate. Such decisions affect capital structure, corporate governance and company development at the micro level, (Green, *et al.*, 2002). It is therefore incumbent on management of a company to determine an appropriate capital structure, which can ensure that their business continues as a going concern. Most economies in developing countries are uncertain, thus, capital structure decisions 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 determine the capital structure of firms (Ajao and Ema, 2012).

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.

Capital structure puts into perspective the way in which a firm finances its operations (Brigham, 2004). This can be through either debt or equity capital or a combination of both. Capital structure theory as attributed to Modigliani and Miller (1977), concluded that it does not matter how a firm finances its' operations and that the value of a firm is independent of its' capital structure making capital structure irrelevant. The study was based on the assumption that there were no brokerage costs, earnings before interest and tax were not affected by the use of debt and that investors could borrow at the same rate as corporations and lastly there was no information asymmetry. The study on capital structure attempted to explain the mix of securities and financing sources used by companies to finance investments (Myers, 2001). Brigham, (2004) referred capital structure as the way in which a firm finances its operations which can either, be through debt or equity capital or a combination of both.

The concept of manager's characteristic is an aspect of values, behaviors 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 *et al*, (2010) shows that measurable managerial characteristics that have significant explanatory power for corporate financing decisions beyond traditional capital-structure determinants. First, managers who believe that their firm is undervalued view external financing as overpriced, especially equity. Such overconfident managers use less external finance and, conditional on accessing risky capital, issue less equity than their peers.

Cadenillas, *et al* (2004) examined the joint determination of executives' compensation and leverage decisions in a dynamic setting and demonstrated that the optimal policy is to grant stock with high leverage to "good" managers and stock with low leverage to "bad" managers. Adams, *et al.*, (2005) reported that stock returns are more variable for firms run by powerful CEOs. The results suggest that the interaction between executive characteristics and organizational variables has important consequence, for firm performance. Coles, *et al* (2006) studied the relation between incentives. Thus, conditional on issuing debt, biased managers choose higher debt levels than unbiased managers.

The NSE, like many other emerging markets, suffers from the lack of liquidity in the market. Foreign investment in the Nairobi Securities Exchange and foreign ownership of companies is by application. Foreign investment in the local subsidiaries of foreign-controlled companies is banned so as to encourage investment by Kenyan companies. The Nairobi Securities Exchange in 2006 introduced an Automated Trading System (ATS), which ensures that orders are matched automatically and are executed on a first come/first served basis. The ATS has now been linked to the Central Bank of Kenya and the CDS thereby allowing electronic trading of Government bonds.

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. 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' traits 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.

This study therefore sought to fill this research gap by answering one research question: How do Manager Characteristics affect Capital Structure?. Thus the study hypothesized that

H₀₁: There is no significant effect of Manager's education on capital structure of a firm.

H₀₂: There is no significant effect of Manager's tenure on capital structure of a firm.

THEORETICAL FRAMEWORK

In relation agency problems, conflicts of interest reside between bondholders and shareholders. An exception is Morellec (2004), who developed a dynamic model when self-interested managers make financing decisions to avoid control challenges. Recently, Lambrecht and Myers (2006) studied a contingent claims model in which managers maximize the present value of their future rents, subject to constraints imposed by outside shareholders' property rights to the firm's assets. Verner (2006) in his study 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.

A large body of theoretical literature argues that agency conflicts between managers and outside investors (shareholders and bondholders) are important determinants of firms' capital structure decisions (Zingales, 2000). In line with this literature, recent empirical evidence suggests that managerial discretion and manager-specific characteristics indeed influence firms' capital structure decisions (Berger *et al*, 1997, Graham and Harvey, 2001, Bertrand and Schoar, 2003). Most dynamic capital structure models that attempt to (as argued by Hennessy and Whited, 2005) provide tighter connections between theory and empirics. However, either assume the manager behaves in the interests of value-maximizing shareholders or that all agents, including the manager, are risk-neutral. Therefore, the effects on firms of manager-specific characteristics such as ability and risk aversion, and agency conflicts between undiversified managers and well-diversified outside investors, have yet to be fully explored in dynamic settings.

In contrast, based on the pecking order model (Myers and Majluf, 1984), firm financing choices are driven by costs of adverse selection as a result of asymmetry of information

between managers and investors. Because internal financing incurs no such costs and debt financing incurs lower costs than equity financing, a firm prefers internal financing to external financing and prefers debt to equity. So far, a large body of empirical studies based on these two classes of models has successfully identified a great number of factors that determine capital structure, such as firm size, profitability, research and development (R&D) expenses, market-to-book ratio of assets and asset tangibility, among these factors, profitability and market-to-book ratio have been found to be especially important determinants

EMPIRICAL REVIEW

Effect of Manager Education on Capital Structure Decision Making

Several recent studies have focused mainly on the effects of different managerial traits on capital structure decision-making behavior. 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). CEOs that are more risk tolerant may initiate more mergers and acquisitions projects (Graham *et al.*, 2009). CEOs with heterogeneous beliefs and opinions ascribed to their cognitive errors may deem inconsistent corporate policies that tend to undervalue the company's stocks in the financial markets (Graham & Harvey, 2001). CEOs with depression experience are averse to debt and lean excessively on internal finance, and CEOs with military experience pursue more aggressive policies, including heightened leverage (Malmendier *et al.*, 2011).

Despite the recognized importance of the effects of education level on capital structure 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 personality, on behavioral 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 behavior for single personality traits on corporate finance decisions. The lack of empirical evidence, which can negatively affect the quality of decision-maker choice and researcher understanding of corporate behavior and formation of capital structure choices, is due in part to data constraints as well as difficulties in determining the impact of a global, broad, personality dimension(s) of CEOs on their capital structure decisions- which are not always directly observable and in accounting for their heterogeneous nature (Harvey, 2001).

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).

Myers, (2001) in his study argues that overall, these findings expand and confirm past research regarding the impact of managerial education on capital structure decisions. Analytical work is in progress for constructing and examining the impact of a global personality index on certain capital structure decisions as well as the identification of segments among CEOs who possess similar personality traits. Knowledge of the impact of a global personality profile on CEOs' capital structure decisions may be useful to financial policy makers to better evaluate efforts by CEO subgroups who may strive to influence governance policies and investment strategies and hence, address the importance of several agency-related problems. By acquiring such crucial information, conflicting situations that undermine publicly listed firms' success in the financial markets may be prevented and continuous enhancement of shareholders' value may be achieved.

The experience and qualification of top executives can affect capital structure of companies in a variety of ways. The value of a company is affected by the amount of leverage companies have in their capital structures. Modigliani demonstrated that in the presence of corporate and personal taxes and bankruptcy costs and other market imperfections, optimal capital structure exists for companies and it is neither 100% debt nor 100% equity. For a firm with no debt borrowing will increase firm value. On the other hand, greater leverage increases the probability of financial distress and subsequent re-organization or liquidation, thus, it takes more skills to successfully manage a company that has debt in the capital structure (Abor, 2007).

A knowledgeable and well-connected CEO can analyze the mission, the Stakeholders' position, and the production or service schedule of the company and choose the best financial instruments and therefore he or she can maximize the firm value. Corporate governance has been identified in previous studies (Wen *et al*, 2003; and Abor 2007) to influence the capital structure decisions of firms especially large and listed firms. The extant literature identified the main characteristics of corporate governance to include board size, board composition, CEO duality, tenure of the CEO and CEO compensation. However, empirically results on the relationship between corporate governance and capitals structure appear to be varied and inconclusive.

According to Morton, (2002) he stated that there is a significant relationship between capital structure and educational qualifications of top employees. Firms with qualified board membership have low leverage or debt ratio. They assume 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 a 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.

Abor (2007) argued that firms with higher leverage rather have relatively more qualified directors, while firms with low percentage of qualified experience lower leverage. Kajola (2008) examines four corporate governance mechanisms together, board size, board composition, and chief executive status and audit committee. The study found out that the relationship between board composition and the two performance measures (Return on Equity and Profit Margin) is not statistically significant. The implication of this is that for the sampled firms, there is no relationship between the firm financial performance and the qualifications of directors sitting on the board.

The outcome also has the support of Bhagat and Black (2002) and Sand *et al*, (2005). The result of the relationship between the chief executive qualifications is clear with the two performance proxies-positive and significant relationship. It implies that the sampled firms; in the period under study, have separate persons occupying the posts of chief executive and board chair. This has influence on the financial performance of the sampled firm and in line with the tenet of the code of corporate governance best practices of Nigeria. This outcome is consistent with precious empirical studies (Brown *et al*, 2004 and Bokpni *et al*, 2006).

Effect of Manager's Tenure on Capital Structure Decision Making

Over the tenure the CEO participates in the recruitment processes of more inside directors; hence he may select the kind of directors that will be loyal to him and more importantly will facilitate his capital structure decision-making skills. Individuals chosen by the CEO are less likely to act against him, and as a result board independence declines over the course of the CEO's tenure. The tenure improves the experience of the CEO, which consequently decreases his reliance on subordinates and so makes delegation of decisions (including leverage) less frequent (Frank & Goyal, 2007; Graham, *et. al.*, 2010). Therefore a positive relationship between tenure and capital structure is expected.

The extent of the CEO's influence on the decisions is determined by his power on the board. By power is meant the degree of influence exerted by the CEO on boards' corporate leverage decision. Following Masulis & Mobbs (2011) the CEO's power is estimated by the 'board capture' index. The board capture is determined by tenure measured by number of years, past performance measured by ratio of operating cash flow to total assets, and ownership (measured by percentage shares outstanding). It increases over CEO's tenure, is enlarged by good past performance, and is incentivized by the CEO's.

Mansi, dan Reeb (2003) also found that board tenure is positively linked to corporate debt yield. This shows that effective supervision is most probably caused by the company board's abilities, implying that a board with a long tenure tends to run a good supervision in order to achieve the company's goals (Beasley, 2006 in Anderson, *et. al.*, 2003). The mixed results of tenure of outside directors show that tenure may not be a perfect proxy for director's competence. Another possible measure is the outside directorship. As Fama and Jensen (2003) indicated that outside directors have incentive to monitor firms effectively to seek director position in labor market, we can consider the directorships hold by outside directors as a signal of their ability as monitors.

Empirical researches have demonstrated the positive relation between CEO tenure and quality of financial reporting. Chtourou *et. al.*, (2001) found the number of outside directorship is negatively related to the level of earnings management. Xie *et al* (2003) got similar results. However, if the outside directors sit on too many boards, they may not have enough time to perform their duties effectively. However, some previous surveys suggested that the average directorship hold by UK outside directors is relatively low (Peanel *et al.*, 1999; Cook and Leissle, 2002).

The longer the tenure of directors on the board, the better knowledge of company and their executives they will get. Therefore, outside directors may be more capable of monitoring managers and financial reporting process if they have served the board for long time. This assertion is supported by many previous studies. For example, Beasley (1996) found the likelihood of financial reporting fraud is negatively related to the average tenure of non-executive directors and Chtourou *et al.*, (2001) found that average tenure of outside directors is negatively associated with level of earnings management.

It is generally believed that the directors with longer tenures are more likely to fight against management to protect shareholders' interest, because they have their own wealth involved. For non-executive directors who hold no position in the firm other than serving on board, Jensen (2003) asserted that holding sizable stock ownership will provide them with better incentives to monitor management closely. Many empirical studies led support to this assertion.

For example, Beasley (2006) found that the likelihood of accounting fraud is negatively related to non-executive ownership. Consistent with this evidence, Combined Code 1998 recommended that payment of part of a non-executive director's remuneration in shares can be a useful and legitimate way of aligning the director's interest with those of the shareholders.

However, there is another possibility that the outside directors with longer tenure are more likely to be entrenched with managers and thus become less effective monitors. This speculation is consistent with National Association of Corporate Directors (NACD) Board Guidelines 1999 which states outside directors may lose some of their independent edge if they stay on the board too long (Farrell, 2005)

Xie *et. al.*, (2003) also found a positive association between average tenure of outside directors and level of earnings management. Although the Combined Code 1998 says that a reasonably long period on the board can give directors a deeper understanding of the company's business, the revised Combined Code recommended outside directors who have served more than 9 years must be re-elected at next Annual General Meeting. He empirically tested the following hypothesis using UK samples.

MATERIAL AND METHODS

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. Out of the 60 listed companies, the study chose those that had been consistently trading for the study period (that is from 2008 – 2013). Document analysis was used because data being collected is secondary in nature.

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' tenure is measured in number of years managers have been in the firm (Dagsson, 2011, McIntyre *et al.*, 2007). Manager Education is measured using a proxy of 0 if the managing director had low education n level (certificate and diploma) and 0 if the managing director had higher education level (Degree, Masters and PHd).

Data Analysis and Presentation

Descriptive statistics of Skewness, kurtosis and Shapiro walk were used to test the normality of the data collected. Multiple Regressions was used because of its ability to use multiple independent variables to estimate their effect on a single dependent variable. The study used panel data, Panel data has fixed effect model (FEM) for testing hypothesis.

RESULTS AND DISCUSSIONS

This section presented the findings; analysis of the variables involved in the study and described the regression model used in the study.

Descriptive Statistics

The study findings indicated that 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 1 below.

Table 1. Summary of Managers Tenure and 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

The study findings in Table 2 indicated that in 2008, 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. 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 2. Managers Gender and Education

		Year						Total
		2008	2009	2010	2011	2012	2013	
Education	Low education	16	9	9	11	8	8	61
	High education	9	16	16	14	17	17	89
	Total	25	25	25	25	25	25	150

Testing hypotheses

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.

Table 3. Hausman Model Selection

Coefficients				
	(b)	(B)	(b-B)	Sqrt (diag (V_b-V_B))
	Fixed	random	Difference	S.E.
Education	-0.28005	-0.19217	-0.08788	0.177891
Tenure	0.368653	0.387438	-0.01878	0.031621

Chi2(4)=0.49; Prob>chi2=0.974

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 4. 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	
corr(u_i, Xb)	= 0.2020	F(4, 140)	=	6.07	
		Prob > F	=	0.0002	
capital	Coef.	Std. Err.	t	P> t 	[95% Conf. Interval]
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 education and capital structure*

As shown in Table 4, the coefficient value of education was $-.2800483$, with $p\text{-value} = 0.682$. Therefore, the researcher accepts the null hypothesis and concludes that education has insignificant effect on capital structure. The study findings are similar Kajola (2008) findings show that there is no relationship between the firm financial performance and the qualifications of directors sitting on the board. To sum up, Abor (2007) argues that firms with higher leverage have relatively more qualified directors whereas those with lower leverage have lower experience. The findings provide evidence to evaluate that, manager's education does not affects capital structure. Consistent with the results, Morton, (2002) asserts that there is a significant relationship between capital structure and educational qualifications of top employees. However, findings by Wen *et al* (2002) and Abor (2007) indicate a positive relationship between a qualified board and financial leverage (capital structure). Additionally, Bhagat and Black (2002) and Sand *et al*, (2005) argued that there is a positive relationship between the chief executive qualifications and financial leverage.

H_{02} : *There is no significant relationship between managers' tenure and capital structure*

Table 4 further shows that manager's tenure has a positive and significant effect on capital structure with a beta value of $\beta_4 = 0.3686532$ ($p\text{-value} = 0.000$ which is less than $\alpha = 0.05$). Therefore, the researcher rejects the null hypothesis, the study infers that the more the managing director stays in affirms the higher the capital structure. As well, Chtourou *et al* (2001) echoes that the average tenure of outside directors is negatively associated with level of earnings management. However, Farrell, (2005) is of the opinion that outside directors may lose their independence if they stay on the board too long. The results further indicate that manager's tenure has a positive and significant effect on capital structure. This implies that managers that have experience rely less on their subordinates while making delegation of decisions. As such, there is a positive relationship between tenure and capital structure (Frank & Goyal, 2007; Graham, *et al.*, 2010). Similarly, Mansi, dan Reeb (2003) also found that board tenure is positively linked to corporate debt yield. Prior studies have also indicated that outside directors that have served on the board for a long time are more capable of monitoring financial reporting process. Beasley (1996) stipulated that the likelihood of financial reporting fraud was negatively related to the average tenure of non-executive directors.

CONCLUSION

The study concluded that the education level of managers has a significant effect on capital structure decision making. The study has established that the managers are majorly Masters Holders hence they are well educated and open to new experiences. Also, the managers have the capability to choose the best financial instruments and thereby maximize firm value. Therefore, such managers pursue leverage to raise company value. The study also concludes that the tenure of the managers affects their capital structure decision making. As evident in the findings in the previous chapter, the managers have tenure of over 10 years hence they are able to run a good supervision that heightens firm performance. They also have better knowledge of the company because of their vast experience.

RECOMMENDATIONS

This study 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. The level of education of the managers also has an influence on capital structure decision making. The study therefore recommends that firms facilitate for their managers to attend trainings that will equip them with relevant skills in management. Further, those in management level should at least be holders of a degree at worst and a Masters' degree at best. The study 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.

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