Abstract

Capital structure has been one of the most controversial issues in the field of finance during the past 40 years. There are a number of existing theories and empirical studies observing patterns involved in choosing a capital structure. However, until now, there is no universally acceptable theory. The purpose of the study was to carry out empirical test, to determine the influence of firm specific factors on the capital structure of Kenyan insurance companies. The study population involved all the registered insurance firms. The research targeted firms that had a continuous operation between 2003 and 2012 and the analysis was based on the year-end observations for ten consecutive years. The study objectives were to test the influence of firm specific factors: firm profitability, firm growth, firm size, and firm risk on capital structure of insurance companies in Kenya. The influence of independent variables and the dependent variable was moderated by the firm management control. This research used both primary and secondary data. The primary data consisted of audited year-end financial reports filed with the Kenya Insurance Regulatory Authority (IRA) and the Nairobi Security Exchange (NSE). Data collection process was very challenging because some companies had not filed all their returns with the regulator and were reluctant to provide the data for this study. For the purpose of analysis, the statistical package (EVIEWS version 8) was used to compute descriptive statistics, correlation and regression analysis. The analyzed data was presented in form of tabulated descriptive statistics such as the mean, range, standard deviation, maximum and minimum values. Inferential statistics were also used to describe the data. Regression statistics were used to test the influence of the independent variables on the dependent variable. The panel regression results indicated that firm profitability, firm size and firm risk were significant factors while firm growth was insignificant. The whole model without moderation had 57.9% explanatory power on capital structure. However, with moderation of the firm management control, the three significant variables: firm profitability, firm size and firm risk had their beta coefficients change from positive to negative meaning they all had negative influence on capital structure. With moderation the model explanatory power improved from 58% to 66%. This means that the management of insurance firms exerts significant moderating effect on the influence of firm specific factors on capital structure. The study established that firms are fully taking advantage of tax shield of debt finance. However this study recommends to the stakeholders in the industry to control the increase in debt ratio by increasing

use of equity and retained earnings to avoid pushing the industry to bankruptcy. The study also recommends to the future researchers to consider studying those other factors that were not included in this research and also those other 10 firms that were excluded.