

## Abstract

Capital structure has been one of the most controversial issues in the field of finance during past 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 universal one. The purpose of the study was to carry out empirical test, to determine the influence of firm specific factors as suggested by various theories on the optimal capital structure of Kenyan insurance firms. 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 used panel data methodology and two independent variables profitability and growth were analyzed as the firm specific determinants of optimal capital structure which was used as the dependent variable, the relationship between independent variable and the dependent variable was moderated by the management control. Regression analysis was done using the statistical package (EViews version 8) to establish the relationship between independent and dependent variables. However with moderation of the management control profitability was found to be significant. The moderator and the interaction between the moderator and profitability were found to be significant. These results were found to agree with the proponents of Agency theory in as far as the influence of the management is concerned.