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 capital structure of Kenyan insurance firms. The study population involved all the registered insurance firms, the research targeted firms that had a continua's 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 size and firm risk were analyzed as the firm specific determinants of capital structure which was used as the dependent variable, the relationship between independent variable and the dependent variable was moderated by the management control. Statistical data was collected from audited year-end financial reports filled with Kenya insurance regulatory authority (IRA) was analyzed; this research used secondary data only. Panel regression analysis was done using the statistical package (EVIEWS version 8) to establish the relationship between independent and dependent variables. The panel regression results indicated that size had a significant influence on capital structure with moderating effect of the management control while risk was not significant. However without moderation of the management control the two independent variables were not significant. The moderator and the interaction between the moderator and the two independent variables were found to be significant. This means that the management of insurance firms exerts significant moderating influence on the relationship between the two firm factors and capital structure. These results were found to agree with the proponents of Agency theory in a