DETERMINANTS OF CAPITAL STRUCTURE DECISION OF LISTED FIRMS: A COMPARATIVE STUDY OF GHANA AND NAIROBI STOCK MARKET

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DECLARATION

This research project is my original work and has not been presented for a degree in any other University or any other award.

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We confirm that the work reported in this project was carried out by the candidate under our supervision.

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ABSTRACT

Capital structure decision is crucial for any business organization because such decision impacts on the firm’s value and its ability to deal with its competitive environment. Finance practitioners and Academicians alike have found it difficult to resolve the issue of optimal capital structure in the perfect capital markets of the advanced economies as well as in the imperfect capital markets, as in developing economies. The debate on the choice of an optimal capital structure is therefore inconclusive from both theoretical and empirical studies. This study sought to empirically investigate the key determinants of capital structure decision of listed firms, a comparative study of Ghana Stock market and Nairobi Stock market with the main aim of providing a comprehensive understanding of the influence of firm specific factors such as firm size, asset structure, profitability, risk, growth and corporate tax, on capital structure decision of listed firms from an emerging market perspective. The findings of the study is expected to be of great significance to Finance Practitioners, Policy makers, Investors, Regulatory Authorities, students, future researchers and the Academicians both in Ghana and Kenya. The study adopted a causal study design. This design made use of panel data analysis model to establish the causal relationship between the independent variables and the dependent variable. The study population constitutes ninety (90) listed firms. Thirty five (35) listed on the GSE and fifty five (55) on NSE. Purposive sampling technique was used to select the sample firms. The sample size for this study is made up of fifty (50) non-financial, non-utility and non-mining listed firms. Twenty (20) listed on GSE and thirty (30) listed on NSE. The study relied on Secondary data sourced from annual audited financial statement of the listed companies on Ghana and Nairobi Stock Exchange. The study employed quantitative data analysis techniques. univariate, bivariate and multivariate data analysis was done using descriptive statistics, Pearson correlation coefficient and linear panel regression analysis respectively. Data analysis software used was STATA version 11. The Result of the study revealed that Growth opportunities, Firm size and Level of risk influence capital structure of listed firms positively but insignificant in both Ghana and Nairobi Stock market. Asset tangibility and Profitability were found to have significant negative effect on capital structure decision of listed firms in both markets; whiles tax was found to have a negative influence on capital structure, but insignificant the in the case of NSE listed firms. This study contributes to the body of knowledge on firm specific factors and capital structure relationship which is scanty from emerging markets perspective. Based on the findings the study recommends that: policies should be formulated to make the sale of bonds attractive to investors in Ghana and Kenya; To facilitate growth and profitability, listed firm on GSE and NSE should employ long term debt instead of short term debt; Investors must be oriented to understand firm characteristics from the financial statement so as to enable them make an informed investment decisions. The study conclude that the determinants of capital structure decision of listed firms on Ghana and Nairobi Stock market generally conform to the predictions of the pecking order theory and that no significant differences were found between the determinants of capital structure decision of listed firms on Ghana and Nairobi Stock markets.