

# Influence of Corporate Control and Capital Structure on the Performance of Firms Listed at the Nairobi Security Exchange

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## Abstract

This study aimed at establishing the influence of corporate control and capital structure on performance of firms listed at the Nairobi Securities Exchange. The focus was on how the link concerning corporate control and corporate's returns is influenced by debt-equity structure for these listed firms. The paper tested the hypothesis that there is no significant intervening effect of capital structure on the nexus between corporate control and firm performance as measured by ROA and Tobin Q. The theory applied were agency theory and trade off theory. The study applied census survey for sixty four firms listed at the NSE. Leverage was used as a measure of capital structure while ROA and Tobin Q were used to measure corporate value. Regression analysis and correlation analysis were used to test the hypotheses. The key study variables of the listed companies were subjected to descriptive statistics and the results revealed a significant positive relationship between the variables. The intervening effect of debt-equity ratio was found to be significant in the relationship between in corporate control and corporate value. The study findings were in line with previous research findings also provided further insight on the contribution of independent variable, corporate control on the dependent variable, corporate value. Analyst and investors can utilize the findings to identify the key corporate control mechanism in financial markets.

**Keywords:** Corporate control, capital structure, agency theory, trade off theory, firm performance.

## 1. Introduction

Sustained value of a company has its foundation on the improvement of business control principles and capital structure optimizations for a given ownership structure. Sheifer and Vishny (1997) argued that capital structure may increase company's value by taking advantage of tax deduction, increase management value by reducing perquisites consumption and disciplining management to optimize returns by taking only projects with positive cash flows, however, it may also reduce the value by increasing the possibility of fiscal distress.

Research has shown that corporate control and leverage relationship with firm performance is affected by agency conflict existing between managers and owners. Jensen (1986) suggested corporate governance, corporate financial policies and ownership structure as some of the possible mechanism for mitigating agency conflicts resulting from widely dispersed share ownership and weak controls. This study combines corporate control and capital structure theories; trade-off theory focuses on the role of leverage level in controlling and optimizing management effectiveness while agency theory analyses the role of corporate control and ownership structure in reducing agency costs and conflict and how this eventually translates into improvement in corporate value and sustenance.

The subject of corporate control has attracted a great interest of scholars, regulators and society in general. Our intention is to establish the cause of company's underperformance which continue to be experienced globally, regionally and even locally despite institution of regulatory bodies and how this is influenced by corporate control and capital structure. Although the improvement and implementation of corporate control principles have contributed to improve corporate performance significantly, there are still cases of underperformance leading to failures. These include collapse of J.P Morgan, Lehman Brothers in Europe and America, Air Zimbabwe and Master Bond Group in South Africa.

### 1.1 Corporate Control

Solomon et al. (2013) argued that the definition and application of corporate control is contingent to situations both internal and external but the underlying principal is to maximize value of company and shareholders returns. Internal corporate control consists of structures existing within the corporation while external mechanisms are determined by influences without. Corporate governance, however is defined to include the entitlements and duties of actors in a corporation which sets out the various laws (OECD, 1999). Higgs, (2003) advised that corporate control can be enhanced by increasing accountability and promoting sustainable wealth creation. In line with the findings of Coase (1991), agency conflict arises because managers have incentive to expand firms beyond their reasonable size so as to increase resources under their control. This will also lead to increase in manager's compensation as increase in sales result in increase in compensation. They may also not be

comfortable with dividend payout to shareholders as this reduces resources under their control. The methods of corporate control relate to the machinery which are applied to ensure accountability. Measurement variables of board organization and composition, board diversity, transparency, disclosure and auditing, board wage and corporate moral code were used as proxy for corporate control.

Corporate control has been adopted in different countries but with some variation as country-wise circumstances differ. Two main approaches to corporate controls can be identified as Agency theory and Stewardship theory (Banafa et al, 2015). The evaluation of corporate control can also be attributed to widening gap between ownership and controls as corporations grow in size and more and more controls and decision are being left in the hands of agents instead of the principals. Agency theory is therefore viewed as a separation of control between ownership and management meaning that management must be focused on optimizing for shareholders, therefore, they should have significant ownership or high compensation (Denis, 2001). Stewardship theory can be said to be a stakeholders' theory in which managers are motivated to act in the best interest of the corporation rather than for their own selfish interest (Brown & Caylor, 2006).

### 1.2 Capital Structure

Abor (2007) defines it as a blend of debt and equity which company uses to fund its activities and notes that companies generally employ different mix ratios in their financing activities. A company's optimal capital structure is achieved through an exchange between personal and corporate taxes, insolvency costs and organization costs (Jensen & Meckling, 1976). Modigliani and Miller (1958, 1963) land mark research was the base upon which subsequent theories were developed. Capital structure variables measurements applied is the leverage. It involves borrowing money to invest in company's capital expansion or working capital, over and above what has been contributed by shareholders (Denis, 2001). It weighs the capability of a company to deal with trade downturns, meaning that a company with high leverage is more susceptible to trade shocks because it has little ability to service debt (Jensen, 1986).

The cost and benefit of debt analysis espouses the connection between corporate control and corporate value. As per the pecking order theory, the management plays a crucial role in the way the company monetary resources are utilized, first retained earnings, secondly debt and ultimately equity. In accordance to this hypothesis, there is no best possible capital structure for it's a combination of decisions made earlier (Hansmann, 2000). Mitton (2008) argued that debt financing can be both a hero and a villain, in that it is an engine of growth when it enable management to take up investment with positive returns which they could not have otherwise taken but can also be a means of companies taking unreasonable risk which might cause unpredictability or even bankruptcy. Optimal debt ratio for all firms may not be generalised but it can be a decisive point for a company's debt policy (Stiglbauer, 2011). Indeed, according to Jensen (1986) the pressure on management resulting for high debt ratio may put pressure on management to improve performance as servicing the loans cuts down on free cash flows that the managers are not able to invest in later projects. However, Myers (1997) argued that higher debt ratio may induce even more agency costs because the interest of the financiers with shareholders may drift further apart as this lowers the proportion of dividend that can be paid out to shareholders. The reduction in future projects investments is also likely to result in lower future cash flow (Zeitun & Tian, 2007)

### 1.3 Corporate value

Epps and Cereola (2008) defined corporate value as the value growth over a given period resulting from the appropriate allocation of company resources with an intention of optimizing the company performance in line with the shareholders' value maximization objectives. Eyenubo, (2013) also defined it as the extent to which the management have met their objective or goal with the defined time range. Black et al. (2006) argued that corporate control influence on the company value is linked to how effective there are in choosing investment alternatives, executing them and evaluating them to realize the set target of optimizing shareholders wealth. Corporate value or the firm performance over the period in line with their ROA (derived from the financials) and Tobin's Q which combines both accounting and markets elements in its measurement criteria.

### 1.4 The Nairobi Securities Exchange

In Kenya, the NSE is the regulatory body charged with ensuring compliance to corporate governance principles intended to eliminate weaknesses identified by previous studies which were expected to ensure effective corporate control for optimal corporate value. Although NSE has met most of its objectives, a number of companies listed at the NSE still faces fiscal and control challengers due to dispersed ownership structures resulting from floating of shares to the public, increasing debt levels as agency cost increases and corporate control failures due to inadequate monitoring (Kiruri, 2013). The erosion of confidence in the economy can be attributed to weak regulatory framework. Local shareholders have lost interest in trading in the stock exchange because of crash in share prices in the last few years as evidenced by declining share price.

Nevertheless some companies registered at the NSE keep exhibiting fundamental weakness and poor

performance. A few of them have collapsed while some are in the brink of failures (Omondi & Muturi, 2013). The latest downfall of Imperial Bank, Dubai bank and Chase bank and continuing poor performance shown by Kenya Airways, Uchimi Supermarket among others have eroded, to some extent, the public confidence in its ability to regulate the corporations resulting in increased capital flight, weak capital formation and poor economic performance. From the foregoing, the study will show of the impact of corporate control on these firms value growth.

### **1.5 Research Problem**

The main concern of the foregoing study is that cases of corporate failures linked to poor performance of public listed corporations which continue to increase in number and magnitude globally, regionally and even locally despite effort being made to improve corporate control practices and its effectiveness. The regulatory framework implemented by OECD world-wide and in Kenya by CMA and tight reporting oversight of NSE has been instrumental in improving corporate performance thereby proving their effectiveness to a reasonable extent (Wachudi & Mboya, 2009). However, the corporate scandals like the one at CMC Motors, NHIF board, several years losses reported by Kenya Airways, Kenya Meat Commission, Mumias Sugar and the latest downfall and challenges of Dubai Bank, Imperial Bank and Chase Bank - are evidence that some poor corporate control practices still exist despite the controls implemented (Osebe & Chepkemoi, 2016). Despite the substantial evidence of positive influence of corporate control, there seems to be deep rooted problems in some corporate governance systems and quality of corporate reporting (Chagbadari, 2011).

Poor corporate control erodes investors' confidence in the capital markets which has a devastating consequence to the economy. In developing country like Kenya, these problems have been exacerbated by weak regulatory institutions, weak accounting and auditing principles, unethical banking practices, poorly controlled financial markets and unprofessional board of management (Zhuang, 1999). Collapse of large companies in the market due to mismanagement and embezzlement of funds by management and other parties to satisfy some personal interest may also be a contributory factor to poor corporate performance. Although corporate control principles and institutions tasks with corporate governance have achieved a significant improvement in corporate stability and performance, there is still need for concrete action on the areas of limitation in depth and understanding of all key variables affecting corporate performance and their inter-relations.

The past research yielded varied results. Most of the research was done in first world countries - where the capital markets are well developed (Demsetz, 1983; Keasey & Wright, 1993; Wheeler et al., 2003; Abor, 2005; Zeitun & Tian, 2007 and Rajput & Bharti, 2015). Therefore, the relative difference may give varying outcomes which may not be relevant to Kenya. Therefore, looking at the connection underlying corporate control and firm performance would attempt to address the problem as stated.

### **1.6 Research Objective**

To determine the direct effect of corporate control on firm performance and the intervening influence of capital structure on the relationship between corporate control and corporate returns of the companies listed at the NSE.

## **2 Literature Review**

### **2.1 Agency Theory**

According to Stulz (1990), capital structure plays a significant part in reducing agency costs as managers respond to increase debt levels by reducing perquisites consumption, increased effort and investing only in positive return projects thereby increasing company value. Agency cost can therefore be said to be the cost of reduction of corporate value and are incurred to reduce the consequences of agency problems like loss of wealth and corporate failure. Jensen and Meckling (1976) noted certain assumptions of agency theory; key of which are uncertainty and imperfect monitoring. The principal experiences uncertainty in his inability to establish the return on investment or the maximization of shareholder's wealth. He is also not able to perfectly monitor the activities of the agent. There is also information asymmetry resulting from distorted flow of data as for the principal and agent. Divergent of interest also results in the relationship as both agent and principal are utility maximizes.

The ownership structure effect in the mix was brought in by Berle and Means (1932) who have posited that as share ownership continue to be diluted, ownership and control gap continues to widen thereby increasing agency costs resulting in reduced value. It is important to have some level of control on agency problem in decision making through having managers accountable for the decisions made and implemented which might result to a loss of shareholders capital (Jensen, 1986). The agent in this case works with self-interest to achieve self-aggrandizement rather than optimizing value for the shareholder which is what he should be doing. The carelessness shown by managers on the outcome of their decision is what results in agency cost to be boned by the shareholder(s). Agency cost can therefore be defined as the cost of monitoring by the principle which involves scrutinizing his activities through auditing, budgeting, control and compensation system (Jensen &

Meckling, 1976).

## 2.2 The Trade-Off Theory

The association between corporate control, capital structure and firm performance is best captured by trade off theory. It asserts that companies would prefer to finance through debt until the benefits resulting from tax shields equals the costs of fiscal distress and bankruptcy. The theory was authored by Jensen and Meckling (1976) who postulated trade-off scenario between a company's optimal debt-equity ratio and impact of bankruptcy costs, taxes and agency costs. This association will then define the level of debt and equity that the company can hold at a particular time to optimize company value. Tax savings resulting from interest expenses – which is an allowable expense, is the debt benefit (Frank & Goyal, 2003).

Modigliani and Miller also later modified their 1958 position of capital structure irrelevance theory by incorporating bankruptcy costs, agency costs and corporate tax (debt interest tax shield) and argued that a maximum level of debt exists where the company's value is optimized (Modigliani & Miller, 1963). The risk of collapse of company forces managers to work harder to generate enough cash flow to keep business afloat. Theoretically, capital structure is positively correlated with firm performance and therefore leverage utilized to minimize agency expenses and enhance company value (Stulz, 1990). This provides a testable link on whether capital structure affects company performance and is affected by corporate control.

## 2.3 Corporate Control, Capital Structure, and Company Value

The underlying connection of corporate control, capital structure and firm performance has elicited a lot of interest. Capital structure may be considered purely on financial terms, but can also be analyzed by viewing it as an array of civil rights and characteristics that characterizes company's resources and effects, with various levels of intensity control exercises. This implies that equity and debt qualifies both as financial and corporate control instruments. Debt imposes stricter control on business activities while equity permits for more flexibility in choice making (Wasiamson, 1988). It would therefore be interesting to see whether recent development in the capital market coupled with company and market maturity achieved so far in the local market could have changed these linkages and provided some level of consistency on the link between capital structure and company returns.

The nexus underlying capital structure and corporate control is crucial given that capital structure has a key task in value generation and distribution (Githira & Nasieku, 2015). It has proved that it can shield a well-managed value creation process by setting up ways of managing the created value distribution. Any change in financing structure would then impact how incentives and monitoring of management is done. The emerging mix of debt and equity has an effect precipitating a group of players whose influence in the firm governance structure may play out depending on how management responds to them and the level of relative control power assumed (Brown & Caylor, 2006). Debt and equity structure can also be deliberately designed to increase corporate governance efficiency and subsequently the corporate value.

Nasieku and Susan (2016) studied the impact financial debt equity structure on financial performance of companies in Kenya. Their research applied content Analysis in reviewing previous and present studies affecting financial restructuring on organizational financial performance. A conclusive decision on the link as to financial restructuring is yet to be made. This research did not consider corporate control in the relationship.

Otieno (2015) researched on the relationship between debt-equity ratio, profitability and replacement of CEO in NSE listed firms. The review was done thrice. First; in trying to find out the bi-directional connection of capital structure with performance, along with selecting pointers of performance and capital structure, a canonical correlation was utilized. Second; GLM method was applied in trying the impact of performance with ownership structure, also to try the impact of capital structure and ownership structure. Ultimately, the generalized estimating equation (GEE) was employed in determining the impact of performance, capital structure and ownership structure on change in CEO. The finding is that bidirectional relationships between capital structures and performance exist. Hypothesis that leverage has a worthwhile impact on change of CEO was affirmed. The study did not consider other variable of corporate control.

Richard and Svensson (2014) studied debt-equity structure and firm performance of the Swedish public companies. They applied a large scale quantitative cross-sectional. Relationships were tested with multiple regression model and development of financial statement data that have been tracked over 8 year period. The research found a negative relationship underlying debt-to-equity and return on equity for Swedish firms. This means that companies can increase their return on equity by decreasing their debt-to-equity levels. The study has not considered corporate control effect on the relationship.

## 2.4 The Conceptual framework

The effect of the causation variable over response variable is not only direct but also through an intervening variable (capital structure). This intervening variable role has been shown by  $H_2$ . The intervening variable of

capital structure as measured by leverage and is expected to affect company value by reducing agency cost and forcing management to invest only in positive return project, consume less perquisites and increase efficiency. The direct link associated with corporate control and company results is shown by H<sub>1</sub>.

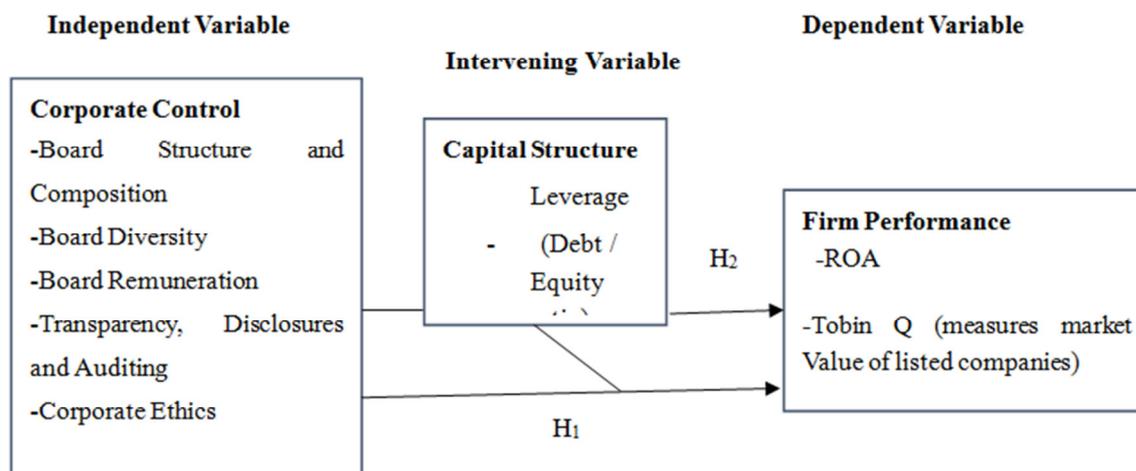


Figure 1.1 The Conceptual Model  
 Source: Author (2018)

### 3 Research Methodology

#### 3.1 Data Collection

This research employed secondary data acquired from past financial statements after examining them, an index was formed for corporate control. For firm performance, the fiscal statement was analyzed to find ROA and Tobin Q. Debt-equity ratio data was employed in calculating leverage. Secondary Data was obtained from companies' websites, financial statements and other records filed with NSE. Where necessary data were not obtained, the same were requested directly from the company's management. The period of research covered 2012 to 2017.

A standardized structured CCI index constructed and the queries were formulated by facts extracted from the best code of practice of corporate control as per the regulatory bodies in the NSE exchange and others like OECD, CACG. The CCI were formulated as a standard proxy and based on forty three binary objective study queries developed from various corporate reports and relevant sources. CCI are from 0 to 100, the assumption is that it is expected that companies inefficiently managed may perform sub-standard. (Brown & Caylor, 2004).

#### 3.2 Data Analysis

A multivariate regression model was applied to determine the link associated with corporate control and company's returns. The hypothesis was tested by the equation below:

$$Y_{it} = \alpha + \beta_1 CC_{it} + \epsilon_{it} \text{-----(1)}$$

Here Y represents corporate value (ROA & Tobin Q),  $\alpha$  is the intercept,  $\beta_1$  is regression coefficient, CC represents corporate control (Measured by Corporate Control Index (CCI)),  $\epsilon$  is a random error term, i is a count of companies considered and t is the duration of the research.

To determine impact of capital structure on corporate control and company value, the four steps approach developed by Baron and Kenny (1986) was applied on the second hypothesis.

$$\text{Step 1: } Y_{it} = \alpha + \beta_1 CC_{it} + \epsilon_{it} \text{-----(2)}$$

Where;

$Y_{it}$ ,  $\alpha$ ,  $\beta_1$ , CC, i, t, and  $\epsilon_i$  are as per equation 1. When  $\beta_1$  is significant it indicates a relation of corporate control with company's value.

$$\text{Step 2: } CS = \alpha + \beta_2 CC_{it} + \epsilon_{it} \text{-----(3)}$$

Where;

CS- Capital Structure score of parameter (Company Leverage)

$\alpha$  -as defined above

For the relationship to exist,  $\beta_2$  must be significant.

Step 3: This stage considered regressing CS (Capital Structure) to establish its indicative power for Y (Company value).

$$Y_{it} = \alpha + \beta_1 CS_{it} + \epsilon_{it} \text{-----(4)}$$

Step 4: A combination analysis was employed here for CC (Corporate Control) and M (Capital Structure)

predicting Y (company value).

$$Y_{it} = \alpha + \beta_1 CC_{it} + \beta_2 CS_{it} + \varepsilon_i \text{-----(5)}$$

For intervention to exist  $\beta_1$  value must be lower in absolute sense in relationship to its step value and  $\beta_2$  is showing a significant value.

#### 4.1 Descriptive statistics

The descriptive statistics refer to measurement of data in terms of minimum, maximum, mean, standard error of estimates. It also include measures of symmetry – skewness and flatness or sharpness of data – kurtosis. Mean is the average of all numbers and it is a measure of central tendency including mode, median and range. Standard error indicates how well the regression line fits the data points. Skewness measures the relative size covered by the narrow ends of the tails in terms of their predictive power or probabilities. Kurtosis measures in reference to normal distribution the degree of heaviness or lightness of tailed data. It is a measure of combined size of the two tails.

The study looked at measures of corporate control such as corporate ethics, transparency, disclosure and auditing, board remuneration, board diversity, board structure and composition as shown below.

**Table 1 Descriptive statistics of major variables.**

	Z	Mean	Std. Deviation	Skewness	Std. Error	Kurtosis	Minimum	Maximum
	Valid							
Leverage	290	0.286734	0.234421	2.3201	0.152	6.920	0.201	1.734
ROA	290	0.215126	0.712345	0.682	0.152	0.523	-5.012	0.7823
Tobin's Q	290	1.29321	0.683423	1.7981	0.152	4.205	0.1321	5.2001
CCI	290	0.70234	0.112321	0.1324	0.152	-1.32	0.723	0.876

The reading as tabulated above shows that leverage has a mean of 0.286734, skewness of 2.3201, kurtosis of +6.920, a minimum of 0.201 and a maximum of 1.734. Return on asset has a mean of 0.215126, skewness of 0.682, kurtosis of +0.523, a minimum of -5.012 and a maximum of 0.7823. Tobin's Q has a mean of 1.29321, skewness of 1.7981, kurtosis of +4.205, a minimum of 0.1321 and a maximum of 5.2001. Corporate control index has a mean of 0.6723, skewness of 0.1324, kurtosis of -1.32, minimum of 0.723 and a maximum of 0.810.

When the skewness of the above were analyzed, most of the variables have their symmetry on the right around their mean. Such include leverage, return on asset, corporate control index and ownership structure index. This indicates that these companies are doing well in respect to these variables. However, an analysis of ownership structure skewness show its symmetry to be aligned towards the left of its mean showing negative relations with corporate value for companies listed at the NSE.

#### 4.2 Corporate Control and firm performance

One of the goals of this study is to determine significance of corporate control on firm performance for companies listed at NSE. This objective was examined based on its sub-variables of board structure and composition, board diversity, director's salaries and allowances, transparency, auditing and code of conduct. The constructs were examined against the indicators of corporate value in an effort to establish their impact. The adequacy of the combined impact to support the hypothesis was tested using a number of regressions. The firm performance measurement variables of Tobin Q and ROA were applied to establish the relationship. Information obtained from financial reports of the NSE listed companies formed the basis of the analysis. The null hypotheses of the study are stated below:-

**H1a: There is no significant nexus linking corporate control and ROA for NSE listed companies.**

Hypothesis 1a sought to test the linkage associated with corporate value and return on assets and was tested using the equation below

$$Y = \beta_0 + \beta_1 X$$

Here; X represents corporate control while return on asset is represented by Y.

**Table 2: Regression Model of Corporate Control against ROA**

Model	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Std. Error of the Estimate	Durbin-Watson
1	.755a	.676	.678	.117935	1.491

Index;

a. Constant, Corporate Control

b. dependent variable: ROA

The table above present model's summary for the relationship between corporate controls and ROA. It is evident that effect of corporate control on ROA is significant with a regression (R) of 0.755. Therefore corporate control explained up to 67.8%, (R<sup>2</sup> = .678) of the total variation in return on asset is attributed to changes in corporate control. The remaining 35.2% is explained by the other variable.

**H1b: There is no significant relationship between CC and Tobin Q among the NSE listed companies.**

Hypothesis sought to establish the relationship between the stated variables for listed companies at NSE. A regression of corporate control on corporate value was done using the equation below.

$$Y = \beta_0 + \beta_1 X$$

Here X represents corporate control and Y denote Tobin Q.

**Table 3: Effect of Corporate Control Index on Tobin's Q**

Summary of the Model.

Model	R	R Sq.	Adjusted R Sq.	Std. Error of the Estimate	Durbin – Watson
1	.601	.324	.312	.6734401	1.577
Constant, CCI Dependent Variable: TOBIN Q					
Coefficients					
(Constant) CCI	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.387	.283		-5.641	.000
CCI	3.765	.391	.512	11.651	.000
Dependent Variable: TOBIN Q					
ANOVA					
Model	Sum of Square	Df	Average Square	F	Sig.
Regression <sup>a</sup>	37.218	1	37.218	112.017	.000
Residual	221.556	289	0.471		
Total	258.774	290			
Dependent Variable: TOBIN Q Predictors: (Constant), CCI					

The results show that a weak relationship exists between the two variables with regression R of 0.601. The means that only 32.4% ( $R^2 = .324$ ) can be explained by corporate control index (CCI) of the Tobin's Q while the balance 67.6% is accounted for by other variables. At p-value greater than 5, F value is 112.017 indicating that corporate control index has a significant impact on firm performance as measured by Tobin's Q. Null hypothesis is thus rejected.

In agreement to this, Gompers at al. (2003) who opined that corporate governance has a positive impact on firm's performance measured by Tobin's Q.

#### 4.3 Intervening Influence of Capital Structure on the nexus of Corporate Control and Corporate Value

This hypothesis was considered in two parts

**H2a: Corporate control and ROA relationship is not significantly affected by the intervention of debt equity mix.**

Corporate control measure, ROA was regressed against betas to know size, direction and statistical significance of relationship. The first step was to regress corporate value on capital structure and subsequently regress control on the corporate value to check for resulting change. When capital structure effects on corporate value are controlled, the effects are mathematically insignificant at  $\alpha = 0.05$ . The reading of the study is summarized below,

**Table 4: Regressing Return on Asset (ROA) on corporate control and debt equity ratio produced the results below:**

Variables	Coefficients		
	Model 1	Model 2	Model 3
Corporate control	.857	.812	.829
Capital Structure	-	-.076(.062)	-.069(.132)
CC * CS	-	-	-.124(.005)
R Square	.623	.618	.633
Adjusted R Square	.608	.617	.626
F Statistics	462.835	246.745	164.432
Percentage Significance	.000	.000	.000
Df1	1	2	3
Df2	289	288	287

The reading from the table indicates that 63.3% ( $R^2=.633$ ) of the variation in corporate value. Combination

of corporate control and ROA, results to variation increase from .623 to .633 giving a  $R^2$  change of 0.010 at a p-value of 0.000. Further reading shows that variance of capital structure is significant at  $p=0.62$ . It was noted that addition of capital structure to the regression, results decrease of beta from  $\beta = 857$  to  $\beta = 829$ . The null hypothesis was thus rejected.

**H2b: Corporate control and Tobin Q relationship is not significantly affected by the intervention of debt equity mix.**

To establish nexus relating to corporate control and corporate value, regression of Tobin Q against corporate control was undertaken, the resulting  $\beta$  established and its statistical significance noted. The outcome of the study was summarized as below.

**Table 5: Regressing Tobin Q on corporate control and debt equity ratio produced the results below:**

Variables	Coefficients		
	Model 1	Model 2	Model 3
Corporate control	.578(.000)	.527(.000)	.522(.000)
Capital Structure	-	-.247(.000)	-.232(.000)
CC * CS	-	-	-.117(.016)
R Square	.283	.332	.342
Adjusted R Square	.276	.327	.337
F Statistics	109.876	74.405	52.216
Significance	.000	.000	.000
Df1	1	2	3
Df2	289	288	287

Capital structure accounts for 34.2% (.342) of the variation in corporate value from the results. When corporate control is combined ROA as measured by the Tobin's Q, the variation increases from .283 to .342, indicating that the change in  $R^2$  was 0.059 at  $p=0.000$ . The outcome shows that the capital structure variance is significant at  $p=0.16$ . The reading also shows that the regression coefficients decrease slightly from 0.578 to 0.522 after adding capital structure to the regression.

Therefore, the null hypothesis was not confirmed which is in agreement with Stiglbauer, (2011) findings that that capital structure has a measurable effect on the two independent and dependent variables.

**5.1 Discussion and findings**

The capital structure intervention objective examined if capital structure intervening between corporate control and firm performance has significant effects. The Baron and Kenny (1986) method was applied in testing the hypothesis in null form. The output of the study indicated the presence of a measurable intervening effect of leverage on corporate control and company returns as measured by ROA and Tobin Q, thus null hypothesis was not confirmed. Good corporate control positively influences firm performance and debt-equity of firms listed at the Nairobi Securities Exchange.

Past research has consistently found that firm performance is positively influenced by corporate control and capital structure decisions. Agency theory has demonstrated that corporate control and ownership structure are important factors to manage the conflicts and costs arising thereof. (Keasey & Wright, 1993). Capital structure is financial and control tool that regulates the flow of decisions and activities in the company management.

Equity capital enable autonomy in management decisions while debts provides a stricter control on firm's activities. Differentiating of external from internal shareholders' funds allows for putting the relationship linking capital structure and ownership in the right context (Jensen and Meckling, 1976). Therefore, according to Zingales (2000) taking capital structure as an instrument of corporate control call for not only focusing on it as a debt and equity mix but also considering how it affects decisions making and firm's management.

The other intention was to examine the influence of corporate control on the company value growth for listed companies at the NSE. This was undertaken by analysing the financial statements and other relevant reports of the listed firms. The independent variable was examined under different sub constructs, namely, board structure and composition, board diversity, board remuneration among others. Correlation output indicated that relationship between the two is statistically significant. Since the results confirmed that corporate governance strongly influences the firm performance, good corporate controls principles and practices are likely to result in high growth in value.

Shleifer and Vishny (1997) found that ownership concentration and corporate performance have a positive relationship. Ashbaugh et al. (2004) later agreed with the findings that relationship between the two is of significant value. However, there were other findings which contradicted this study finding. A negative relationship on the two was found by Ashbaugh et al. (2004) when they evaluated the effect of corporate governance on firm's operational performance. No relationship was recorded by Hermalin and Weisbach (1996) when they measured the effect of board composition and direct incentives on firm performance. Further, Daily

and Dalton (1992) did not find any relationship between corporate control and corporate performance even after applying similar measurements to this study.

Past corporate failures and mismanagement suggests that managers are most of the time self-interested, risk averse and follow their own goals against shareholders' interests. Authorities have tried to use corporate control mechanism as a way to discipline managers and reduce agency costs. This has been done through monitoring, advising and control exercised by board of directors. According to Gompers et al. (2003), corporate control should be effective in improving corporate value growth. A number of studies have attempted to provide explanation for the positive effect on corporate control on firm's performance. Some have argued that through board monitoring and control, management efficiency improves which translates into better corporate performance. According to Shleifer and Vishny (1997), a firm having effective corporate governance and control can invest in profitable projects thereby increasing the efficiency of operation and higher cash flow.

The study result of significance of relationship between the study variables and corporate value as measured by ROA and Tobin Q is also supported by agency theory. Agency theory is primarily aimed at tuning management and shareholders focus to optimize shareholders and hence corporation wealth. In line with agency theory, the position of the chairman and the CEO should be separated so that monitoring and control effectiveness as well as check systems are enhanced (Donaldson, 1990). Doe et al. (2011) also argued that agency theory on separation of the two position has found good support on the ground as evidence by its adoption throughout the world.

It was also noted that the corporate value of the firms under review improved during the period. According to Shleifer and Vishny (1997) the key objective of corporate control is to provide assurance to the shareholders that the management will optimize firm performance. It was observed that increasing number of listed companies have adopted the practice of Chairman and CEO roles.

The study revealed a strong positive linkage concerning corporate value growth and number of non-executive directors in the board. This indicates that compliance with recommended principles of good corporate practice support improved corporate performance. This is in line with recommendation of OECD and CMA for listed companies to adopt and implement corporate governance codes of operation. According to Cadbury (2002) board of directors must have non-executive members to control decisions making on strategic and governance issues of the company. Skills and experience mix is necessary for board members to be able to be effective in analysing companies situations, future and appropriate course of action as well as for optimal decision making (Zingales,2000)

## 5.2 Conclusion

The study concluded that corporate control significantly influences corporate performance. This relationship was however influenced significantly by an intervening variable, capital structure. The capital structure intervention in the relationship of corporate control and corporate value is positive and significant and is therefore valuable to the company performance. This underscores the importance of setting up the right capital structure policy in order to optimize firm value growth. This can only be obtained in an environment of appropriate corporate control which then plays a key role in determining their competitiveness and ability to operate as a going concern. The study results and discussion also indicates that there exists significant and positive direct relationship between corporate control and corporate value. The conclusion is supported by previous research findings (Shleifer & Vishny, 1986). The results show the importance of corporate control for growth of firm performance and shareholders' equity. In conclusion, each of the two variables (corporate control and capital structure) had significant joint contribution to the corporate value.

## 5.3 Contribution to Knowledge

Financial market analysts and investors can apply the study to bring sound regulation in financial markets. Management will be interest in implementing regulations and controls to achieve high profits and maximum shareholders capital. The study will be invaluable to future researcher as it provide a rich base on knowledge on which to build future research. The study therefore contributes to theoretical and practical framework.

## 5.4 Limitation of the Study

Availability of data – inability to obtain data from a small part of the population affected, to some extent the generalization of the findings. Time constraint – there was insufficient time as the researcher had to cope with need to complete the study within the allowed time.

The above limitations do not dilute the quality and contribution of the findings to the knowledge base touching on areas of corporate control and governance which still has a lot of room for future studies.

## 5.5 Recommendation and Policy Implication

Aligning company debt structure and corporate controls to best practices can enable the company to benchmark

with international standards as well as allowing it to be relevant to specific firms in their context and size. Results shows that board structure, composition, remuneration, block holding were significantly positive with corporate value growth and that the intervention of the capital structure significantly influences this relationship.

### 5.6 Suggestion for Future Research

Researchers should in future consider incorporating difference variables other than corporate control and capital structure to enrich corporate governance and control studies generally and deepen understanding even further. Future researchers may also consider repeating this study in other developed and developing markets to provide insight in different markets results. Other researches may also look at manager's motives in complying with corporate control and governance requirements.

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