Board Characteristics and Capital Structure Decisions of Commercial Banks in Kenya

Hiltommy Muthiani Mulwa1, Fredrick W.S. Ndede2
1School of Business, Kenyatta University, Kenya
2Department of Accounting and Finance, School of Business, Kenyatta University, Kenya

ABSTRACT

Organizations in the modern society are faced with numerous challenges that require those in charge with governance to make effective decisions that enhance organizations’ overall performance and sustainability. One of the key decisions an organization’s board ought to make involve capital structure. Despite various research that have been conducted relating to board characteristics and capital structure, several authors concurs that the manner in which banks select the best capital structure, and the factors that influence their corporate financing behavior are not well understood. The main aim of this study therefore was to investigate board characteristics and capital structure decisions of commercial banks in Kenya. The study measured board characteristics with respect to board size, board diversity, board independence and board expertise while the capital structure decisions was gauged with capital structure ratio, that is, total debt ratio. These dimensions also formed the specific objectives of the study. The study assessed various literatures covering both theoretical and empirical that elaborates on the study variables providing more insight as well as identified gaps that needed to be filled. The study employed correlation design as it strived to demonstrate the causative connection between study variables. All selected commercial banks formed the target population with chief finance officers and internal auditors being the target respondents in these banks. The primary source of information was both primary and secondary data of this study whereby primary data collection instrument was the questionnaire whose reliability and validity was ensured before collecting data. Collected data was properly assessed and checked before conducting final analysis. Data was analyzed using descriptive and inferential analysis, which was aided by statistical package for social science and the outputs were presented in form of graphs, pie charts, frequency tables and narrations. The findings of the study showed a strong positive correlation between all the study measures as shown by R value of 0.824. From inferential analysis findings, the study concludes that on the overall all the board of directors’ characteristics studied had a significant influence on capital structure decisions of commercial banks in Kenya. The regression coefficients p-values were 0.000, 0.000, 0.002 and 0.001 consecutively which were all less than 0.05 indicating a significant relationship between board characteristics dimensions studied and capital structure decisions; therefore, all the null hypotheses were rejected. The study also established that capital structure of commercial banks in Kenya over a period of 5 years between 2013 and 2017 averaged at 0.841 which was less than 1.00, indicating that these banks finance their assets using equity as opposed to debts. As a result, the study concluded that board characteristics have a significant impact on capital structure decisions made by Kenyan commercial banks. Furthermore, commercial banks in Kenya regard financial flexibility as more important than the tax shelter advantage, implying aversion to debt and a proclivity to follow an inverted pecking order when it comes to external funds. The study therefore recommends that banks’ board and management should manage debt and equity levels rationally to enhance their performance; banks should select the right size of board with the right mix of expertise and diversity who will be able to monitor the management but will not interfere with or infringe on capital structure decisions; banks should also increase board
independence in order to benefit from the skills and expatriates of these board members; and finally a selection of banks’ board with divergent skills and qualifications so that banks can reap from the heterogeneity of educational backgrounds and competences.

**Key Words:** Board Characteristics, Corporate Governance, Capital Structure Decisions

DOI 10.35942/ijcfa.v3i2.222

**Cite this Article:**
Mulwa, H., & Ndede, F. (2021). Board Characteristics and Capital Structure Decisions of Commercial Banks in Kenya. *International Journal of Current Aspects in Finance, Banking and Accounting, 3*(2), 129-143. https://doi.org/10.35942/ijcfa.v3i2.222

---

1.0 Introduction

Major construction decisions are high on the list of decisions made by board members of the organization (Njuguna and Obwogi, 2015). The structure of a company is a combination of debt, equity, and other financial instruments used to finance long-term financing (Arbiyan and Safari, 2009). Pandey (2010) argues that large-scale financial decisions (CSDs) should be carefully negotiated to protect the interests of diverse groups including equality, stakeholders and society. Therefore, the board of an organization is responsible for making the right decisions regarding matters that benefit its organization. Heng, Azrbaijani and San (2012) pointed out that the board of directors of any organization has people with different qualifications chosen by shareholders to manage the organization through them when they need to make appropriate decisions regarding major building decisions as they affect organizations and operations (Renton, 2014). Likewise, the right board that can make a good CSD is important for a company to improve its performance, efficiency and sustainability (Jones, Li and Cannella, 2015). Heng and Azrabi, (2012) view company members as bodies that have been empowered to make decisions about financial decisions affecting investor spending, employee safety, economic health, and management and rights. For this reason, the structure of any corporate board should be established in a way that selects nominees who are able to determine the appropriate combination of equity and debt to maximize corporate success. The structure of the board, according to Kakanda, Salim and Chandren (2016), reflects the combination of board members and the different types of directors - executive and non-executive directors, independent and independent directors. Includes board size and director types i.e., internal and external directors (Tauringana, 2015; Marn and Romuald, 2012).

Ndungu and Langat (2017) argue that CSD has an impact on corporate prices which means that share-sharing companies are often declining due to a lack of demand for such shares. This will affect potential shareholders as they will be reluctant to invest in promising firms. Sheikh and Wang (2012) also point out that the board of directors makes decisions through larger structures. The company has an influence on its equity policy which states that a company with over-indebtedness and preferential interests will demand higher profits from the business thus reducing the average shareholder. Art texts reflect mixed findings related to the impact of various board members on CSD. One of the researchers who has written positively about the size of the board in financial decisions including Wen at al. (2002) focusing on Chinese listed firms; Ranti (2013) using companies listed on the Nigerian Stock Exchange; Sheikh and Wang (2012) focus on 155 listed companies in Pakistan. Similarly, Wang et al. (2012) focused on 145 small and medium-sized enterprises in Taiwan and Yaseen and Armaneh (2013) focusing on companies listed on the
Jordan Stock Exchange experienced good board formation and had a significant impact on investment decisions.

However, additional studies reported that BDC had a negative impact on CSD. These studies include Akbari and Rahmani (2013) who focus on companies listed on the Tehran Stock Exchange; Ngan (2013) Companies in Vietnam from 2010 to 2011 listed on the Hochiminh City Stock Exchange; Babalo and Yinusa (2012) focus on firms listed on the Nigeria Stock Exchange. In addition, Masnoon and Rauf (2014), reported similar findings on Pakistani companies listed on the Karachi Stock Exchange from 2009-2011. In addition, various studies have not found significant influence on the board of directors in decisions that make financial decisions. These authors include Hussainey and Aljifri (2007) who focus on companies listed in the UAE; Rehman et al. (2010) focused on nineteen Pakistani companies found no significant influence on board signals, in particular, board independence in major construction decisions. Similarly, Priya and Nimalathasan (2013), Breni (2014) focused on companies listed on the London Stock Exchange and Kitiavi et al. (2013), focusing on Kenyan companies listed on the Nairobi Securities Exchange did not find significant BDC influence on CSD.

1.1 Statement of the Problem

The decision to build a capital is very important for any institution because it is directly related to the company's risk and its return. Deciding on the best option for a company’s financial services is very important for both managers and financial providers of the company (Ajao and Ema, 2012). The decision to create the wrong kind of currency can have a negative impact on the value of the company as it can lead to a significant increase in costs and thus reduce the value of the company and a successful decision-making process can have a different effect. Nyamweya (2015) argues that the measures used to determine the amount of debt and equity of a board of directors in a company in their capital decisions are unclear whether or not it is due to various structures of their sector, as well as other factors influencing actions. Kuria (2013) also stated that the agreement on how banking institutions choose the right financial structure and the factors that affect their financial performance in companies is unclear, which provides an information gap.

Moreover, the studies of coherence between the sign board and the decisions of large structures appear to be different and incomplete (Ranti, 2013; Jones et al., 2015; Njuguna and Obwogi, 2015; Kakanda et al., 2016). Other studies have documented the positive influence of board members and decisions on major structures (Wen et al., 2002; Ranti, 2013; Sheikh and Wang, 2012; Yaseen and Amarneh, 2013); others have developed a negative influence (Babalo and Yinusa, 2012; Ngau, 2013; Akbari and Ratimoni, 2013; Masnoon and Rauf, 2014). While some researchers do not support the influence of board symbols on major building decisions (Husainay and Aljifri, 2007; Rehman, 2010; Priya and Nimalathasan, 2013; Chitavi et al., 2013; Breni, 2014); which indicates the need for further research to find direct influence.

In addition to the extensive studies that have attempted to show the link between board features and major building decisions most of these documents focus on developed countries with limited research focused on developing countries, providing a local gap. This offers shortcomings because developed countries and developing economies vary in terms of business areas that influence corporate decisions including large-scale building decisions. In addition, many studies have used a small number of dimensions to measure board features and decisions for large structures. The study therefore aims to fill these gaps by researching the link between board symbols and commercial bank building decisions in Kenya using four independent variables.
1.2 Objectives of the Study

The general objective was to determine how board characteristics influence capital structure decisions of Commercial Banks in Kenya. Specific objectives were:

i. Determine how board size influences capital structure decisions of Commercial banks in Kenya
ii. Examine how board diversity influences capital structure decisions of Commercial banks in Kenya
iii. Find out how board independence influences capital structure decisions of Commercial banks in Kenya
iv. Assess how board expertise influences capital structure decisions of Commercial banks in Kenya

2.0 Literature Review

2.1 Theoretical Review

Agency theory was used by the study. The concept of organization was introduced by Jensen and Meckling (1976). Emphasis on the association of potential shareholders in the organization and the representative representatives of the organization's management and management (Pind and Wing, 2011). In this view, the company's shareholders (principals) hire agents (directors or managers) to do the job (Clarke, 2004). The basis of this concept lies in the distinction between ownership and management which suggests that when there is knowledge of asymmetry, the agent can follow his or her wishes and harm the principal (Sanda, Mikailu and Garba 2015). The idea is based on the assumption that the parties to the agreement will do so in order to increase their interest and that all actors are free to enter into another contract elsewhere. In addition, it includes ensuring that agents put the interests of the head first. The agency’s view is that a good cash flow can be achieved with my reduction costs caused by disputes between owners and managers of the company. Therefore, money laundering can be a tool for management to track company objectives. This is because modern organizations are so large and complex that financiers need to manage their culture (Ongore, 2011). After all, there is a need to separate ownership from financial management that leads to agency problems, according to corporate executives. Business management oversees the board of directors of a responsible organization and appropriate functions to ensure that agency costs arising from agency problems are kept accountable, by establishing accreditation and accreditation mechanisms. As a result, this concept is consistent with current research because it provides a link between financial structure decisions, i.e., maintaining possible financial performance by reducing costs from agency problems through good governance, the position of board of directors.

2.2 Empirical Review

This section reviews artwork related to board symbols and decisions of large structures arranged according to research objectives. Decision-making (CSD) involves deciding where to get the money, where to get the money and how to get more money on credit so that we can use it to manage sound financial decisions and make big financial decisions and make decisions (Somathilake and Kumara, 2015). These decisions reflect the efficiency, effectiveness and understanding of the management of the organization in taking advantage of business opportunities with a leading financial combination (Shafana, 2016). Huang and Vu Thi, (2003) have indicated that companies are free to repay their investments using any of the three sources of revenue
including: profits (also known as internal equity), issuance of new shares (external equity), and borrowing on debt instruments (money). According to several studies, complex factors influence financial decision-making (Chen, 2004; Mazur, 2007; Getzmann, Lang, and Spremann, 2010). According to Bhabra et al. (2008), key factors influencing CSD include the size of tangible assets, organizational profits and growth opportunities. Getzmann et al. (2010) point to the direct effect of a solid size on a company portfolio and Gropp and Heider (2014) found that high-profit banking institutions prefer low-level financing.

In addition, Frank and Goyal (2009) concluded that factors that can be considered in describing market strengths include limited power in the industry, fixed market rate, tangible assets, profitability, inflation and expected inflation. Amidu (2013) in determining the financial performance of Ghanaian banks suggested that profitability, asset formation, size, growth and corporate taxes had a significant impact on bank financing patterns. These findings are consistent with corporate financial concepts such as agency theory and trade theory among others. However, long-term studies of robust studies indicate that there are non-compliance with key parameters that affect financial performance in companies (Shafana, 2016). Kenya, like many other developing nations, is represented by a weak legal and administrative environment as indicated by Tarus (2011) and Gakeri (2013). In the banking sector, Gathaiya (2017) researched the challenges of banking collapse in 2015-2016 in Kenya and found that corporate governance was a major problem, so he concluded that board members had a significant impact on the success and prosperity of banks (Gathaiya, 2017). Although the Capital Markets Authority (CMA) has adopted and endorsed the application of corporate governance guidelines, it still needs to be determined whether corporate governance systems promote effective decision-making in Kenya, especially financial decision-making.

Many analysts view the size of the board as a major part of the board of directors because there are differing opinions on board size and their impact on solid decision-making. For those who support agency theory, they think a small board size is more appropriate and works by highlighting smaller monitoring roles thus improving efficiency, collaboration, and communication. On the other hand, the large size of the board leads to delays in decision-making, synchronization and communication; reveals an increase in conflicts of interest between owners and managers; and the overthrow of the board of directors, thereby affecting the performance of the company (Abdurrouf, 2011; Nanka-Bruce, 2011).

Subsequently, another study reports that boards with different capabilities, educational institutions and industries are believed to promote robust performance thereby increasing their value (Ganiyu and Abiodun, 2012). Gill and Obradovich (2012) studied the impact of corporate governance on American financial institutions found that the large size of the board had a negative impact on the number of firms of regulated companies. On the other hand, the vast majority of the text attached to the board size and currency structure varies. For example, Sheikh and Wang (2011) linked a good board size with a debt rating in Pakistan. Another paper focusing on Dutch listed businesses also showed a positive and significant relationship between board size and equity debt ratio (Ganzeboom, 2014).

In addition, Jadat (2015) recorded a positive correlation between board size and cash structure between companies listed on the Amman Securities Exchange. Hussain and Aljifri (2012) also recorded similar findings in the UAE. Similarly in Nigeria, Ganiyu and Abioudum (2012) reported positive relationships showing that large boards responsible for the oversight function provided by sufficient board members were able to form separate groups and therefore could easily use higher
debt to increase company value. In addition, large boards can escalate into conflicts due to differences of opinion and opinion in decision-making leading to higher levels.

In contrast, Heng et al. (2012) confirms the insignificant correlation between the size of the board and the amount of debt in assets. Also, Bodaghi and Ahmadpour (2010) document the negative collaboration between companies listed in Iran in Tehran. Similarly, Velnampy (2013) reported unimportant mergers in Sri Lankan production companies. On the other hand, Chitavi et al. (2013) Coin formation and sign board of directors in Kenya. The findings reflect the insignificant correlation between board size and short-term and long-term credit ratings.

Differences in risk perceptions and behaviors that are closely related to gender differences and their impact on business decisions especially financial decisions recently studied by many researchers especially in the economic and psychological fields (Eckel and Grossman, 2012; Francoeur et al., 2013). In today's corporate world, female company executives are growing at an alarming rate which has led many researchers to conduct various studies to determine their impact on corporate decisions, for example, organizational finances, consolidation and acquisition decisions, public listing decisions among others (Huang and Kisgen, 2012).

Gender diversity has been established to influence the policy decisions of various organizations, for example, financial reporting policies between female and male managers. In particular, Women Financial Managers (CFOs) women tend to be independent in their own way compared to their male counterparts (Mian, 2010). Huang and Kingen (2012) examined the influence of gender differences on CFOs in corporate decisions and wrote that companies owned by female CFOs grew slightly compared to those under the control of male CFOs. In addition, these authors reported that women CFOs do not make important decisions such as liking and paying off debts.

Levi et al. (2008) studied the gender inequality of directors 'influence on pricing and availability and reported that the payroll of female managers' bids was relatively low compared to their male counterparts and therefore concluded that there was a contradictory relationship between the women's board and bidding premiums. Moreover, Barath et al. (2008) investigated the impact of gender on the internal behavior of senior management business and showed that although both female and male managers received positive rewards in internal training, male managers were shown to earn twice as much as their female counterparts.

In addition, Welbourne et al. (2007) examined the impact of women's management of IPO firms on robust performance and reported that the presence of female executives had a positive impact on corporate performance in the short term, growth in stock prices and earnings per share over a three-year period. In addition, Peng and Wei (2012) investigated the impact of gender inequality on cash flow sensitivity and found that male CEOs are more sensitive to investment, especially in firms that rely on equity, than female CEOs.

In general, the women's board has been tested to be more independent than their male counterparts who claim this is offline (Carter et al., 2013). Adams and Ferreira (2009) confirmed that women boards are more willing to attend board meetings and keep better meeting records than male directors. They were also found to have made concerted efforts to monitor and supervise senior management. Some researchers have analyzed the effect of gender differences on the board with a strong number. For example, Alves et al. (2014) investigated the impact of board variations on company financial decisions and wrote that boards with more gender diversity improve board performance and reduce asymmetry details between managers and shareholders of an organization leading to short-term debt and more long-term resources.
3.0 Research Methods

The decorative design was most appropriate when the subject strives to show the causal link between the learning variables. The target of current research includes 42 active commercial banks in Kenya (CBK Records, 2017); The respondents referred to them were the chief financial officers (CFOs) and the internal auditors of 42 commercial banks in Kenya which made the audit unit 84 (See Appendix III and Scope). These respondents were selected because they can provide the necessary and accurate information.

A research census was used that focused on all 42 active commercial banks according to the 2017 Central Bank Records that formed the analytical unit. The census was good considering that the people being looked after were accessible, well-represented and easily treated.

The sampling process for this study was used to select respondents according to their ability to provide relevant information as this method is most used when there are few people who are able to provide the required information (Kowalewski, 2014). Two managers (unit of observation) in each bank were therefore selected who were skilled and competent in the field of study and were therefore able to provide accurate and relevant information. The respondents were senior financial executives and internal auditors of 42 operating banks in Kenya. The study sample size was therefore 84 respondents (42 senior financial managers and 42 internal auditors).

Both primary and secondary data were collected for research. Questionnaires were hired to collect key information that contained systematic questions about the flexibility of the directors' characteristics. Questionnaires are used primarily for designated people where they can read and write (Ghauri and Gronhaug, 2010). The questionnaires are arranged in the same way so that all the respondents can answer the same questions in a clear way. The questionnaire was based on a 5-point Likert program organized for research purposes. Respondents were given statements where they were required to indicate their level of agreement or disagreement to have 1 as one of the most widely agreed options and 5 as the most agreed option. The choice of Likert metal is due to the fact that it has been proven to have high compatibility and legal performance in various settings (Saunders et al., 2009).

The study used secondary data to obtain data on financial structure decisions (flexibility dependent). Secondary general data provides durable and easily accessible data in a way that can be easily checked by others which improves data reliability and thus ensures data quality. The study used the content analysis method and therefore the researcher obtained the information by hand in both the printed financial statements and the annual reports of commercial banks posted on their websites during 2013 to 2017.

This study filtered the data to ensure that it was complete, reliable, and consistent, and coded using Likert scale values equal to the number of options in the study query. Descriptive analysis is performed to provide a definition of each variable to help create patterns and quantities that are helpful in determining the organizations or percentages of people who support or disagree with a particular item. The multiple retrospective model as described below has been used to illustrate the effect of learning flexibility.

4.0 Data Analysis Results

The study used retrospective analysis to determine the relationship between independent and dependent variables, as well as the strength and significance of those relationships, in order to obtain valid conclusions and make the results obtained more general.
According to Kothari (2012), most regression analysis is a mathematical method that focuses on the formation of cohesive associations between three or more conditions. Multiple repetitive assists in determining the overall fit of the model and the corresponding influence of each prediction on all the variables described. Multi-line retrospective model was used in this study to determine the effect relationship between the board signals (independent variables) and capital structure decisions (dependent variables). Table 1 shows the results.

### Table 1: Model Summary

| Model | R    | R Square (R²) | Adjusted R Square | Std. Error of the Estimate | Sig.  |
|-------|------|--------------|-------------------|---------------------------|-------|
| 1     | .824 | .753         | .744              | .29837                    | 0.001 |

Source: Research Analysis Data (2021)

Appearance in Table 1, R refers to the many coefficients of integration showing that the strong associations between different independent variables and dependent variables. While R square (R2) represents a degree of stability that defines the degree to which the variability of dependent variables (major building decisions) can be adjusted by independent variability (Board size, board variability, board independence and board technology). It can also be termed as a percentage of variables in variables based on each display or combination of individual variables.

According to Table 1, the specification of the four predictor variables (board size, board diversity, board independence, and board expertise) in the above model has the ability to predict capital structure decisions, as demonstrated by the R square value of 0.753. (75.3 percent ). The R2 value of 0.753 in model 1 indicates that changes in the independent variables can explain 75.3 percent of the observed variations in CSD (BDC).

Further, the study performed multiple regression analysis to establish the extent to which board characteristics (independent variable) relates with CSD (dependent variable). The findings are illustrated in Table 2.

### Table 2: Regression Coefficients

| Model       | Unstandardized Coefficients | Standardized Coefficients | t     | Sig.  |
|-------------|-----------------------------|---------------------------|-------|-------|
| (Constant)  |                             |                           |       |       |
|             | β                            | Std. Error                | Beta  |       |
| Board Size  | .375                        | .056                      | .344  | 6.751 | .000 |
| Board Diversity | .416                      | .080                      | .401  | 5.695 | .002 |
| Board Independence | .488                   | .049                      | .521  | 8.857 | .000 |
| Board Expertise  | .579                      | .082                      | .554  | 4.582 | .001 |

a. Dependent Variable: Capital structure decisions

Source: Research Analysis Data (2021)
To test the study hypothesis t-test with a critical value of 1.96 and with a p value having a critical value of 0.05 was used to test the significance of board size, board diversity, board independence, board expertise on capital structure decisions. According to Kothari (2012), independent variables have a significant effect if the t-value is greater than + or - 1.96 or the p value is less than 0.05, where the non-negative factor can be rejected.

The study used regression model:

\[ Y = \beta_0 + \beta_2 BS + \beta_2 BD + \beta_3 BI + \beta_4 BE + \epsilon \]

Where, \( Y \) = Capital structure; \( BS \) = Board size, \( BD \) = Board diversity, \( BI \) = Board independence, \( BE \) = board expertise; \( \epsilon \) = error term

As indicated in Table 4.9 findings, the model becomes:

\[ Y = 1.822 + 0.375BS + 0.416BD + 0.488BI + 0.579BE + \epsilon \]

As shown in the figure above, all of the board features studied in board size, board variations, board independence and board expertise - have a statistically significant impact on the decisions of commercial banking structures in Kenya. If all of the magnitude of the board of directors sign is returned to a fixed zero, the monetary value of commercial banks in Kenya could stand at 1.822.

The first research hypothesis stated that the size of the board did not have a significant impact on the financial decisions made by commercial banks in Kenya. The findings revealed a positive and significant relationship between board size and monetary value, as indicated by \( \beta = 0.375 \), p value \( = 0.000 \) (0.05), meaning the null hypothesis is rejected. This means that increasing the board size by 0.375 units increases the financial structure decisions by 0.375 units (37.5 percent). These findings are consistent with previous studies by Sheikh and Wang (2011), Ganiyu and Abodium (2012), Ganzeboom (2014), and Jadat (2015), which found a positive correlation between board size and large building decisions, and compared Heng et al. (2012) and Velnampy (2013), who found negative relationships.

The second opinion of the study was that the divergence of the board did not have a significant impact on the financial decisions made by commercial banks in Kenya. The findings showed that board variability has a positive and significant impact on financial decision-making, as indicated by beta value \( = 0.416 \) and p value \( = 0.002 \) (0.05), indicating that the null hypothesis is being rejected. This means that an increase of 0.416 units across the board has increased financial decisions by 0.416 units (41.6 percent). These findings are consistent with those of Alves et al. (2014), which found a positive relationship between board variations and structural decisions.

The third view suggested that the board's independence did not have a significant impact on the financial decisions made by Kenyan commercial banks. The results showed that the board's independence had a positive impact on large investment decisions, as evidenced by a beta value of \( = 0.488 \) and a p value of \( = 0.000 \) (0.05). As a result, the null hypothesis is rejected. In addition, the increase in unit freedom on board increases investment decisions by 0.488 units (48.8 percent). These findings are consistent with those of Abor (2007), Sheikh and Wang (2012), and Kajanathan (2012), which found a positive relationship between the number of non-executive directors on the board and the level of firmness, indicating that outside Directors have a positive influence on corporate use. In general, these findings provide evidence that a highly independent board of directors is leading to an increase in the financial options system proposed by Myers and Majluf (1984). The independent board of directors, in particular, is closely associated with the use of
foreign shares and long-term liabilities and is negatively associated with the use of revenue and short-term debt.

The final opinion of the study was that the board's technology did not have a significant impact on the financial decisions made by commercial banks in Kenya. The findings revealed a positive and significant impact on the board's expertise in the financial decisions of Kenyan commercial banks, as evidenced by beta value = 0.579 and p-value = 0.001 (0.05); therefore, the null hypothesis is rejected. According to these findings, the increase in unit in board technology increases financial structure decisions by 0.579 units (57.9 percent). The findings are consistent with those of Abor and Biekpe (2013), who found a positive correlation between the ability of the board of directors and the corporate structure, compared with Ganiyu and Abiodun (2012), who found a negative relationship between board expertise and structural decisions.

5.0 Conclusions and Recommendations

5.1 Conclusions

The study concludes that commercial banks in Kenya consider financial volatility to be the most important in terms of tax advantages that include debt resistance and the tendency to follow a reversal in relation to foreign currencies. Financial flexibility is critical to keeping debt levels low so that banks are able to cope with unexpected market changes that clearly indicate that these banks prefer retained earnings and / or equity rather than debt consolidation. This is also supported by secondary data obtained from financial statements, which revealed that Kenyan commercial banks capital structure averaged at 0.841 over a five year period of 2013-2017 which is less than 1 suggesting that these banks’ finance their assets using equity as opposed to debts.

As per the inferential analysis, there is clear indication that the specification of the four predictor variables studied, that is, board size, board diversity, board independence, and board expertise demonstrated the ability to predict capital structure decisions, as evidenced by the R square value of 0.753 (75.3 percent), indicating that changes in board characteristics can explain 75.3 percent of observed variations in capital structure decisions. The adjusted R2, which measures the reliability of the results, showed that the model's findings are significant and reliable in interpreting the predictability of the predictable variable variables, at a value of 744 (74.4 percent). In addition, the value of R is 0.824, indicating a strong positive correlation between readability variables, which are board symbols and major building decisions.

According to the findings of the regression analysis, all four measures of board characteristics studied, board size, board diversity, board independence, and board expertise, have a statistically significant influence on capital structure decisions of commercial banks in Kenya. The study concludes that board size has a significant impact on financial decisions, as evidenced by the positive and significant relationships shown in beta value = 0.375, p-value = 0.000 (0.05). This means that increasing the board size by 0.375 units increases the financial structure decisions by 0.375 units (37.5 percent). The findings are in line with the institution's view, which states that there are cases where new board members are instructed to direct the company after working as a financial provider. These findings also show that small boards of directors are more effective at managing management decisions, leading to a stronger and more stable position.

The study concludes that board variability has a significant impact on commercial banking decisions in Kenya, as the findings have shown a positive and significant impact on board variance in monetary decisions, as shown by beta value = 0.416 and p-value = .002 (0.05, i.e., unit variations
increase financial structure decisions by 0.416 units (41.6 percent). The study also concluded that the independence of the board has a significant impact on the financial decisions of commercial banks in Kenya, as evidenced by the beta value of $= 0.488$ and $p$ value $= 0.000$ (0.05), meaning that the increase in board unit freedom increases financial performance by 0.488 units (per cent. 48.8). The significant relationship between the private sector and the financial system shows that as the board's independence grows, so do the opportunities for greater borrowing. It can also be concluded that the independent board of directors is associated with the use of foreign shares and long-term liabilities and is associated with the use of revenue and short-term liabilities. The study concludes that board technology has a significant impact on the financial decisions made by commercial banks in Kenya. This is reflected in the positive and significant beta value of $= 0.579$ and $p = 0.001$ (0.05), which means that the increase in unit in board technology increases construction decisions by 0.579 capital (57.9 percent). In view of this, the study concludes that these findings support the concept of resource dependence, which means that a pool of technology can serve as a source of other information, leading to better organizational benefits.

5.2 Recommendations

The following are the study's recommendations: According to the study's findings and conclusions, the characteristics of the board of directors have a significant impact on the capital structure decisions of Kenyan commercial banks. As a result, the study recommends that banks' boards of directors and management manage debt and equity levels rationally in order to improve their performance. Because the size of the board has a significant impact on capital structure decisions, the study recommends that commercial banks in Kenya increase their board size by selecting the right number of board with the right mix of expertise and diversity who will be able to monitor the management but will not interfere and infringe on banks’ capital structure decision making. Because the Central Bank of Kenya regulates commercial banks, it should ensure that every bank set correct diversity of the board ensuring there is gender balance to enhance board effectiveness and usefulness especially in key decision-making including capital structure decisions.

An independent director system based on strict selection process should be established to strengthen their supervisory role and raise awareness of independent directors in all Kenyan commercial banks. In fact, the study suggested that commercial banks increase the independence of the boards in order to benefit from the capabilities of other board members. According to research findings, board independence has a positive and significant impact on the decisions of commercial banking structures. In addition, the presence of additional non-executive directors may lead to better management decisions and attract better resources, as external board members may have better knowledge or useful information in financial institutions. Further the study recommends a selection of banks’ board with divergent skills and qualifications so that banks can reap from the heterogeneity of educational backgrounds and competences. Furthermore, all banks’ board members should be encouraged to upgrade their skills continuously to boost their competence and enable optimal decision making. This is in line with the study results which revealed that board expertise poses the greatest positive impact on the capital structure decisions hence making board expertise one of the critical factors in capital structure decisions.

References

Abor, J. (2010). Corporate governance and financing decisions of Ghanaian listed firms. Corporate Governance. *The International Journal of Business in society*, 7(1), 83-92.

Abor, J., (2007). Board characteristics and Financing Decisions of Ghanaian Listed Firms. Board
characteristics. 7(1), 73-96

Abdoli, M., lashkary, M., & Dehghani, M. (2012). Corporate Governance and Its Effect on the Corporate Financial Leverage. *Journal of Basic and applied Scientific Research*, 2(9), 8552-8560.

Achchuthan, R., Kajanathan, R., & Sivathasan, N. (2013). Corporate governance practices and capital structure: A case in Sri Lanka. *International Journal of Business and Management*, 21(8), 114-125.

Adams, R., & Mehran, H. (2012). Is corporate governance different for bank holding Companies?. *Federal Reserve Bank of New York Economic Policy Review*, 123-42.

Adams, R., & Ferreira, D. (2009). Women in the boardroom, and their impact on governance and performance. *Journal of financial Economics*, 94, 291–309.

Ajanthan, A. (2013). Impact of corporate governance practices on firm capital structure and profitability: a study of selected hotels and restaurant companies in Sri Lanka. *Research Journal of finance and Accounting*, 10(4), 115-126.

Ajao K. & Ema Z. (2012). *The long-run performance of firms following loan announcements*. Unpublished working paper, University of Florida.

Al-Najjar, B., & Hussainey, K. (2011). Revisiting the Capital Structure Puzzle: UK Evidence. *The Journal of Risk Finance*, 12(4), 329-338.

Alves, P., Couto, E. B., & Francisco, P. M. (2015). Board of directors’ composition and capital structure. *Research in International Business and Finance*, 35, 1–32.

Barisua, N., Torbira, F., & Lenee, L. (2012). Corporate Governance and Financial Performance of Publicly Listed Deposit Money Banks in Nigeria. *Reiko International Journal of Social and Economic Research (Rijser)* 4(4)

Bathula, H. (2008). *Board Characteristics and Firm Performance: Evidence from New Zealand*. Auckland University of Technology. New Zealand.

Belkhir, M. (2009). Board of directors’ size and performance in the banking industry. *International Journal of Managerial Finance*, 5(2), 201-221.

Bharath, S. T., Sunder, J., & Sunder, S.V. (2008). Accounting Quality and Debt Contracting. The *Accounting Review* 83 (1), 1–2

Bodaghi, A., & Ahmadpour, A. (2010). *The Effect of Corporate Governance and Ownership Structure on Capital Structure of Iranian Listed Companies*. 7th International Conference on Enterprise Systems, Accounting and Logistics (7th ICESAL).

Bokpin, A.G., & Arko A.C. (2009). Ownership structure, corporate governance and capital structure decision of firms. *Journal of Economics and Finance*, 26(4), 246-256.

Carter, D. A., Simkins, B.J., & Simpson, W.G. (2013). Corporate governance, board diversity, and firm value. *Financial Review*, 38(1), 33-53.

Chakraborty, I. (2010). Capital structure in an emerging stock market: The case of India. *Research in International Business and Finance*, 24, 295-314.
Chen, R., S. Huang, W.W, Chang, Y.H., &Wang, J.Y. (2013). The Impact of Management and Outside Block holders Ownership on Capital Structure. *The 2nd IBSM, International Conference on Business and Management*, 2 – 4.

Claessens, S. & Yurtoglu, B.B. (2013). Corporate governance in emerging markets: a survey. *Emerging Markets Review*, 15, 1-33.

Cooper, D. R., & Schindler, P. S. (2011). *Business Research Methods (4th ed.*) New York, NY: McGraw-Hill.

Dimitropoulos, P. (2014). Capital Structure and Corporate Governance of Soccer Clubs: European Evidence. *Management Research Review*, 37(7), 658 – 678.

Fama, E. (1980). Agency problems and the theory of the firm. *The Journal of Political Economy*, 88 (2), 288-307.

Gakeri, J.K. (2013). Enhancing Kenya’s securities markets through corporate governance: challenges and opportunities. *International Journal of Humanities and Social sciences*, 3 (6), 93-117.

Ganiyu, Y.O.G. & Abiodun, B.Y. (2012). The impact of corporate governance on capital structure decision of Nigerian firms. *Research journal in organizational Psychology and Education studies*, 1(2), 121-128.

Ghauri, P.N., & Grønhaug, K. (2005). *Research Methods in Business Studies* (3rd Edition). Prentice Hall: London

Gill, A., Biger, N. & Shah, C. (2012). Corporate governance and Capital structure of small Business service firms in India. *International journal of economic and finance*, 4 (8), 83-92

Gill, A., & Obradovich, J. D. (2012). The Impact of Corporate Governance and Financial Leverage on the Value of American Firms. *International Research Journal of Finance and Economics*, 91, 1-14.

Greene. (2011). Impact of Ownership Structure and Corporate Governance on Capital Structure. *American Journal of Economics and Development*, 1(1).

Hassan, A., & Ali, S. (2009). Impact of Ownership Structure and Corporate Governance on Capital Structure of Pakistani Listed Companies. *International Journal of Business and Management*, 4(2).

Heng, T, Azrbaijani. S., & Tze, O. (2012). Board of Directors and Capital Structure: Evidence from Leading Malaysian Companies. *Asian Social Science*, 8(3), 56-93.

Hussainey, K., &Aljifri, K. (2012). Corporate governance mechanisms and capital structure in UAE. *Journal of Applied Accounting Research*, 13(2), 145-160.

Jaradat, M. S. (2015). Board characteristics practices and capital structure: A study with special reference to board size, board gender, outside director and CEO duality. *International Journal of Economics, Commerce and Management*, 3(5)

Jensen M.C., Meckling, W.J. (1976), Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics* 3(4), 305-360.
Kajananthan, R. (2012). Effect of Corporate Governance on Capital Structure: Case of the Sri Lankan Listed Manufacturing Companies. *Journal of Arts, Science and Commerce, 3*(4), 63-71.

Kothari, C. R. (2008). *Research methodology: Methods and techniques*. New Delhi: New International Publishing.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R.W. (2007). Legal determinants of external finance. *The Journal of Finance, 52* (3), 1131-1150.

Liu, Q., Tian, G. & Wang, X. (2011). The effect of ownership structure on leverage decision: new evidence from Chinese listed firms. *Journal of the Asia Pacific Economy, 16*(2), 254-276.

Magdalena, R. (2012). Influence of Corporate Governance on Capital Structure Decision: Evidence from Indonesian Capital Market. *World Review of Business Research, 2*(4), 37-49.

Mian, S. (2011). On the Choice and Replacement of Chief Financial Officer. *Journal of Financial Economics, 60*, 143-175.

Mohan, N. J., & Chen, C.R. (2014). Are IPOs Priced Differently Based upon Gender? *Journal of Behavioral Finance, 5*, 57-65.

Mugenda, O.M., & Mugenda, A.G. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Acts Press. Nairobi, Kenya.

Nyamweya, S.A. (2015). Relationship between the Board of Directors’ Characteristics and the Capital Structures of Companies Listed In Nairobi Securities Exchange. *IOSR Journal of Business and Management, 17*(2), 104-109.

Ondiek, B. (2010). *Relationship between capital structure and financial performance of firms listed at the Nairobi Stock Exchange*. Unpublished MBA Thesis, University of Nairobi.

Otieno, O. L. (2012). *Capital Structure and Performance at Nairobi Stock Exchange (NSE)*. Unpublished MBA Thesis, University of Nairobi.

Pahuja, A. & Sahi, A. (2012). Factors affecting capital structure decisions: empirical evidence From selected Indian firms. *International Journal of Marketing, Financial Services and Management Research, 1* (3), 2277-3622.

Pandey, I. M. (2010). *Financial Management (10th ed.)*. VIKAS Publishing House PVT Ltd.

Peiris, J.M.P.D., & Fernando, C.S.P.K. (2013). *The Impact of Corporate Governance on Capital Structure Decisions*. First Annual Students’ Research Symposium 2013- Abstracts, Faculty of Commerce and Management Studies, University of Kelaniya, Sri Lanka, 36.

Pfeffer, J. (1972). Size and composition of corporate boards of directors: the organization and its environment. *Administrative science quarterly, 17*(2), 218-228.

Priya, K & Nimalathasan, B. (2013). Board Characteristics and Capital Structure: A Case Study of Selected Hotels & Restaurants in Sri Lanka. *International Journal of Advanced Research in Management and Social Sciences, 2*, 21-33.

Ren, T., & Wang, Z. (2011). Female participation in TMT and firm performance: evidence from Chinese private enterprises. *Nankai Business Review International, 2*(2), 140-157.
Sheikh, N.A.S. & Wang, Z. (2012). Effects of corporate governance on capital structure: empirical evidence from Pakistan. Corporate governance. The International journal of Business in society, 12(5), 629–641.

Tarus, D.K. (2011). Boards’ demographic characteristics and strategic change in Kenya. Unpublished Ph.D Thesis, Moi University, Nairobi.

Tarus, G. & Ayabei, T. (2014). The theory of capital structure. Journal of Finance.

Ujunwa, A. (2012). Board characteristics and the financial performance of Nigerian quoted firms. Corporate Governance, 12(5), 656-674.

Uwuigbe, U. (2014). Board characteristics and capital structure: evidence from listed firms in Nigeria stock exchange. Journal of Accounting and Management, 4(1), 67-101

Velnampy, T., & Aloy, J. (2012). The relationship between capital structure and profitability. Global Journal of Management and Business Research, 12(13).

Wellalage, N. & Locke, C. (2012). Corporate governance and capital structure decisions of Sri Lankan listed firms. Global review of business and economic research, 8 (1), 157-169.

This is an open-access article published and distributed under the terms and conditions of the Creative Commons Attribution 4.0 International License of United States unless otherwise stated. Access, citation and distribution of this article is allowed with full recognition of the authors and the source. Copyright, content ownership and liability for content herein remain with the authors.