



Dynamic Adjustment Towards Target Capital Structure: Panel Evidence of Listed Firms in Kenya

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Abstract

Trade-off theory of capital structure uses static and dynamic approach. The use of static approach has been prevalent. Despite the importance of dynamic capital structure the debate in Kenya is so far inconclusive. Therefore, to fill this gap, there was need to assess the speed & of adjustment from target capital structure of listed non-financial firms in Kenya. Causal research design was used. The population for this study was 65 listed firms with only 35 non- financial firms sampled due to exclusion of financial sector which has highly regulated capital structure. Dynamic Partial Adjustment model (DPA) was used to estimate target leverage in each industry and the study found out that, there exist a target leverage level which is different from observed leverage for each sector. Further, the study showed that, listed firms adjusted to target level with a speed of 51% meaning that, the adjustment costs are relatively low.