ABSTRACT

There is an agency relationship between shareholders and managers of firms who protect the owners’ interest. This relationship has the potential to influence firms’ decisions, many of which in turn affect other business areas such as value creation and leverage. However, there has been prior evidence to prove that there is a connection between ownership structures and firm value, this study then seeks to expand the scope of research by exploring the relationship between the ownership structures of firms and their capital structures which affects firm value.

It is therefore argued that the equity holding between managers on one side and external shareholders on the other has a bearing with the ratio of equity to debt finance of firms. The empirical results from this study prove that there is a positive relationship between external share ownership and debt ratio but a non-linear relationship between managerial share ownership and debt ratio. The results from this study further show that the relationship between the debt ratio of firms and the external shareholders varies at low and high levels of managerial share ownership.