



**CORPORATE GOVERNANCE, MACRO ENVIRONMENT,
TOP MANAGEMENT CAPABILITIES AND PERFORMANCE
OF COMMERCIAL STATE CORPORATIONS IN KENYA**

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Abstract:

Purpose: This study investigates the influence of corporate governance, macro environment, and top management capabilities on the performance of commercial state corporations in Kenya. Motivated by persistent performance challenges within state-owned enterprises, the research aimed to provide a holistic understanding of internal and external factors that drive organizational success. An integrated conceptual model was developed and tested using data collected through structured questionnaires administered to top-level managers across various commercial state corporations. The study was theoretically anchored in Agency Theory, Stewardship Theory, Upper Echelons Theory, and Resource Dependency Theory. **Methodology:** The variables considered in this paper are corporate governance conceptualized as an independent variable and anchored on agency theory, macro environment as the moderating variable supported by steward theory, top management capabilities as the intervening variable, anchored on upper echelon theory and performance as the dependent variable. The study used a descriptive research design and a positivist worldview. A semi-structured questionnaire was administered to 47 commercial state corporations. The data was analyzed using descriptive and inferential statistics, notably Pearson's Product-Moment Correlation and multiple regression analysis for hypotheses. **Findings:** The study established that collectively and individually, corporate governance, macro environment, and top management capabilities positively and statistically influence commercial state corporations in Kenya.

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Keywords: corporate governance, macro environment, top management capabilities, performance, commercial state corporations, Kenya

1. Introduction

Topical financial crises, rapid progress of privatization and financial organizations have strengthened the development of CG practices amongst firms. Major organizational scandals, financial catastrophes and unforeseen corporate failure have deepened attention on the position of robust corporate governance practices so as to circumvent risks (Puni & Anlesinya, 2020). During the period of growing capital mobility and globalization, corporate governance has become a vital agenda influencing organization attractiveness. In Africa, states are struggling to develop and boost their economies, yet the continent is full of experiences drawn from the acumen of traditional types of leadership with its focus on hard work, communality, and kindness, as symbolic in the spirit of Ubuntu (Van der Colff, 2003). Further, in Africa, economies stagnate, unemployment rates increase, national infrastructure deteriorates, and inequality and surging poverty levels have long been characterized (Gatamah, 2002).

Corporate governance plays a significant part in a firm's accomplishment since it overlays modalities of achieving social and financial goals (Ehsan, 2019). Corporate governance changes rules or presents incentive plans that inspire managers to guard the welfare of stockholders and mitigate skirmishes. Organizations using precise corporate governance practices are well placed to achieve better results and efficient acquisition and use of resources (Bhagat & Bolton, 2019). Corporate governance edifices provide different information about financial leverage to markets and different users (Bae et al., 2018). In this study, corporate governance was measured by CEO duality, committee structures, board structures and ownership structure (Tanjung, 2019).

The overarching goal of CG is to enhance firm performance by aligning managerial behavior with shareholder interests and optimizing resource utilization. Bhagat and Bolton (2019) argue that strong CG leads to more disciplined capital allocation, improved risk management, and greater investor trust. Recent evidence further affirms that firms with high governance scores outperform their peers in terms of return on equity (ROE), Tobin's Q, and operational efficiency (Mohammed et al., 2023). Moreover, CG has proven critical during times of crisis. For instance, firms with strong governance mechanisms exhibited superior resilience during the COVID-19 pandemic, as demonstrated by reduced default risk and higher earnings stability (Gul et al., 2022).

The context of the study is commercial state corporations in Kenya. State corporations refer to a State or county corporation or agency and include a subsidiary of a state or county agency (Government Owned Entities Bill, 2014). State corporations can perform roles commercially and some non-commercially, but they serve a strategic socio-economic objective as may be defined by the president in various instances. State

corporations are central players in the initiative to foster national growth. The existing governance and regulatory structures in Kenya have, over the years, been weakened by vested interests. There have been glaring and urgent reforms and changes that have been lacking in the state corporations and in how they are regulated and governed. A sizable fraction of Kenya's GDP is driven directly and indirectly by state corporations. In addition, numerous Vision 2030 plans are entrusted to Government Owned Entities.

2. Theoretical and Literature Review

Effective corporate governance procedures are crucial for lowering investor risks, luring in investment capital, and enhancing company and financial institution performance. The argument over the crucial role that the senior management team plays in developing strategies that would align businesses with their environments and subsequently affect performance was first sparked by Hambrick and Mason (1984). A study of the impact of TMD and macro environment on the association amid enterprises risk management and performance of Kenya government-owned entities revealed that all three factors significantly influenced the output of state entities (Otieno, 2020). Bathula and Singh (2015), established that top management involvement is key in achieving effectiveness and accomplishment. Salehi et al. (2018) found that top management capabilities enhance operational tasks and profitability. Gudergan and Wilden (2018) revealed that top management capabilities impact dynamic capabilities, resulting in improved organizational.

Shah and Iqbal (2023) found that effective governance mechanisms provide resilience against macroeconomic shocks in emerging markets, thereby stabilizing financial performance. Ali and Wei (2019) argued that institutional quality, as a component of the macro environment, enhances the effectiveness of corporate governance practices in Asia-Pacific countries, resulting in improved firm profitability. Adekunle and Olowe (2023) observed that high inflation rates erode Nigerian firms' profitability by inflating operational costs and diminishing consumer purchasing power. Thus, firms must navigate complex macroeconomic variables that can impede growth and earnings.

Khan and Mustafa (2021) argued that strong corporate governance mechanisms create a supportive environment for innovation. They help top management with resource allocation and strategic experimentation. Firms that are led by competent executives and backed by effective governance tend to have higher levels of R&D activity and patent generation, which can lead to a competitive edge and enhanced financial success. Khan and Rasheed (2021) found that when governance frameworks empower top managers to take thoughtful strategic risks while keeping accountability in check, it leads to better performance for firms. This balance allows for innovation and agility, all without giving up control.

3. Research Methodology

The study used a cross-sectional descriptive survey as a research design. The target population of the study comprised 47 commercial state corporations in Kenya. The study used primary data collected using a semi-structured questionnaire. The study variables were operationalised as follows: Corporate governance (Tanjung, 2019) as CEO duality, committee structures, board structures and ownership structure. Macro environment (Gupta, 2020) includes political, economic, social, technological, environmental, and legal factors. Top management capabilities (Bathula & Singh, 2015) are knowledge, skills and aptitudes. Performance (Tarawneh, 2006; Kaplan, R. and Norton, D., 1992) is financial (ROA) and non-financial (customer, internal processes, learning and growth, corporate social responsibility and environmental impact). To test the joint effect, the study regressed corporate governance, macro environment, and top management capabilities on performance. The analytical model was a multiple linear regression model.

4. Research Findings and Discussions

The study sought to examine the effect of corporate governance, macro environment and top management capabilities on the performance of commercial state corporations in Kenya. The study was guided by the following null hypothesis:

H₀: There is no significant joint effect of corporate governance, macro environment and top management capabilities on the performance of commercial state corporations in Kenya.

The findings are presented in the tables below.

4.1 Non-Financial Performance outputs

The findings in Table 1 above indicated that the corporate governance, macro environment and top management capabilities explained 79.4 percent of the variation in non-financial performance and only 20.6 percent was explained by other variables not considered in this study. The overall model was also statistically significant ($F= 38.617$, $p\text{-value} < .05$) and therefore the null hypothesis (H_0) that there is no joint effect of macro environment, top management capabilities and corporate governance on performance of commercial state corporations in Kenya was rejected. Regarding individual significance, corporate governance, macro environment and top management capabilities were significant since $p\text{-values}$ were less than 0.05. The resulting predictive equation was

$$\text{NFP} = .842 + .290\text{CG} + 0.238 \text{ M E} + .314\text{TMC}$$

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Table 1: Corporate Governance, Macro Environment, Top Management Capabilities and Performance (non-Financial)

| Model Summary ^d | | | | | | | | | | |
|---|-----------------------------|-----------------------------|-------------------|----------------------------|-------------------|-------------------|---------------------------------|-------------|-------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change | |
| 1 | .743 ^a | .552 | .538 | .29081 | .552 | 39.471 | 1 | 32 | .000 | |
| 2 | .891 ^c | .794 | .774 | .20357 | .047 | 6.896 | 1 | 30 | .013 | 2.554 |
| ANOVA ^a | | | | | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. | | | | |
| 1 | Regression | 3.338 | 1 | 3.338 | 39.471 | .000 ^b | | | | |
| | Residual | 2.706 | 32 | .085 | | | | | | |
| | Total | 6.044 | 33 | | | | | | | |
| 2 | Regression | 4.801 | 3 | 1.600 | 38.617 | .000 ^d | | | | |
| | Residual | 1.243 | 30 | .041 | | | | | | |
| | Total | 6.044 | 33 | | | | | | | |
| Coefficients ^a | | | | | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | | Collinearity Statistics | |
| | | B | Std. Error | Beta | | | Lower Bound | Upper Bound | Tolerance | VIF |
| 1 | (Constant) | 1.351 | .466 | | 2.901 | .007 | .402 | 2.300 | | |
| | Corporate Governance | .668 | .106 | .743 | 6.283 | .000 | .452 | .885 | 1.000 | 1.000 |
| 2 | (Constant) | .842 | .347 | | 2.428 | .021 | .134 | 1.551 | | |
| | Corporate Governance | .290 | .098 | .322 | 2.953 | .006 | .089 | .490 | .576 | 1.735 |
| | Macro Environment | .238 | .114 | .266 | 2.08 | .045 | -.036 | .513 | .306 | 3.269 |
| | Top Management Capabilities | .314 | .120 | .410 | 2.626 | .013 | .070 | .559 | .281 | 3.553 |
| a. Dependent Variable: Performance | | | | | | | | | | |
| b. Predictors: (Constant), Corporate Governance, Macro Environment, Top Management Capabilities | | | | | | | | | | |

Table 2: Corporate Governance, Macro Environment, Top Management Capabilities and Performance (Financial)

| Model Summary | | | | | | | | | | |
|---|-----------------------------|-----------------------------|-------------------|----------------------------|-------------------|-------------------|---------------------------------|-------------|-------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | | Durbin-Watson |
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change | |
| 1 | .624 ^a | .390 | .373 | .46705 | .390 | 23.654 | 1 | 37 | .000 | 1.378 |
| 2 | .695 ^a | .484 | .434 | .42191 | .484 | 9.676 | 3 | 31 | .000 | 1.458 |
| ANOVA | | | | | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. | | | | |
| 1 | Regression | 5.160 | 1 | 5.160 | 23.654 | .000 ^b | | | | |
| | Residual | 8.071 | 37 | .218 | | | | | | |
| | Total | 13.231 | 38 | | | | | | | |
| 2 | Regression | 5.167 | 3 | 1.722 | 9.676 | .000 ^b | | | | |
| | Residual | 5.518 | 31 | .178 | | | | | | |
| | Total | 10.686 | 34 | | | | | | | |
| Coefficients | | | | | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95.0% Confidence Interval for B | | Collinearity Statistics | |
| | | B | Std. Error | Beta | | | Lower Bound | Upper Bound | Tolerance | VIF |
| 1 | (Constant) | .922 | .716 | | 1.287 | .206 | -.529 | 2.372 | | |
| | Corporate Governance | .801 | .165 | .624 | 4.864 | .000 | .467 | 1.134 | 1.000 | 1.000 |
| 2 | (Constant) | .903 | .698 | | 1.292 | .206 | -.522 | 2.327 | | |
| | Corporate Governance | .840 | .203 | .705 | 4.135 | .000 | .426 | 1.255 | .572 | 1.747 |
| | Macro Environment | .287 | .127 | .259 | 2.259 | .016 | -.176 | .750 | .398 | 2.515 |
| | Top Management Capabilities | .300 | .119 | -.295 | 2.521 | .009 | -.748 | .147 | .360 | 2.781 |
| a. Dependent Variable: ROA | | | | | | | | | | |
| b. Predictors: (Constant), Corporate Governance | | | | | | | | | | |
| c. Predictors: (Constant), Top management Capabilities, Corporate Governance, Macro Environment | | | | | | | | | | |

The findings in Table 2 indicated that the corporate governance, macro environment and top management capabilities explained 48.4 percent of the variation in financial performance. The overall model was also statistically significant ($F= 9.676$, $p\text{-value} < .05$) and therefore the null hypothesis (H_0) that there is no joint effect of macro environment, top management capabilities and corporate governance on performance of commercial state corporations in Kenya was rejected. Regarding individual significance, corporate governance, macro environment and top management capabilities were significant since p-values were less than 0.05.

The resulting predictive equation was

$$FP = .903 + .840CG + 0.287ME + .300TMC.$$

5 Conclusions and Recommendations

The results showed that there is a joint statistically significant influence of macro environment, top management capabilities and corporate governance on the performance of government-owned entities in Kenya. The results validate those of Otieno (2020), who discovered that TMD, macro environment and enterprise risk management significantly influenced the output of state entities. Bathula and Singh (2015) established that top management involvement is key in achieving effectiveness and accomplishment. Findings also supported Salehi et al. (2018), who revealed that top management capabilities enhance operational tasks and profitability. Gudergan and Wilden (2018) revealed that top management capabilities impact dynamic capabilities, resulting in improved organizational.

The study offers strong evidence that corporate governance, alignment with the macro-environment, and the capabilities of top management all work together to influence the performance of commercial state corporations in Kenya. Focusing on just one of these factors isn't enough organizations need to take a comprehensive approach that weaves together governance practices, awareness of external factors, and the skills of their executives to achieve sustainable performance. The findings indicate that no single factor, corporate governance, macro environment, or top management capabilities, fully explains performance in isolation.

This study focused solely on commercial state corporations in Kenya, leaving out other types of state-owned enterprises like regulatory bodies, research institutions, and service-oriented corporations. Future studies should broaden their scope to include the influence of corporate governance, the macro environment, and top management capabilities across a wider array of public sector organizations. This would not only enhance the generalizability of the findings but also provide valuable comparative insights across different contexts within the public sector.

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Conflict of Interest Statement

The authors declare no conflicts of interest.

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