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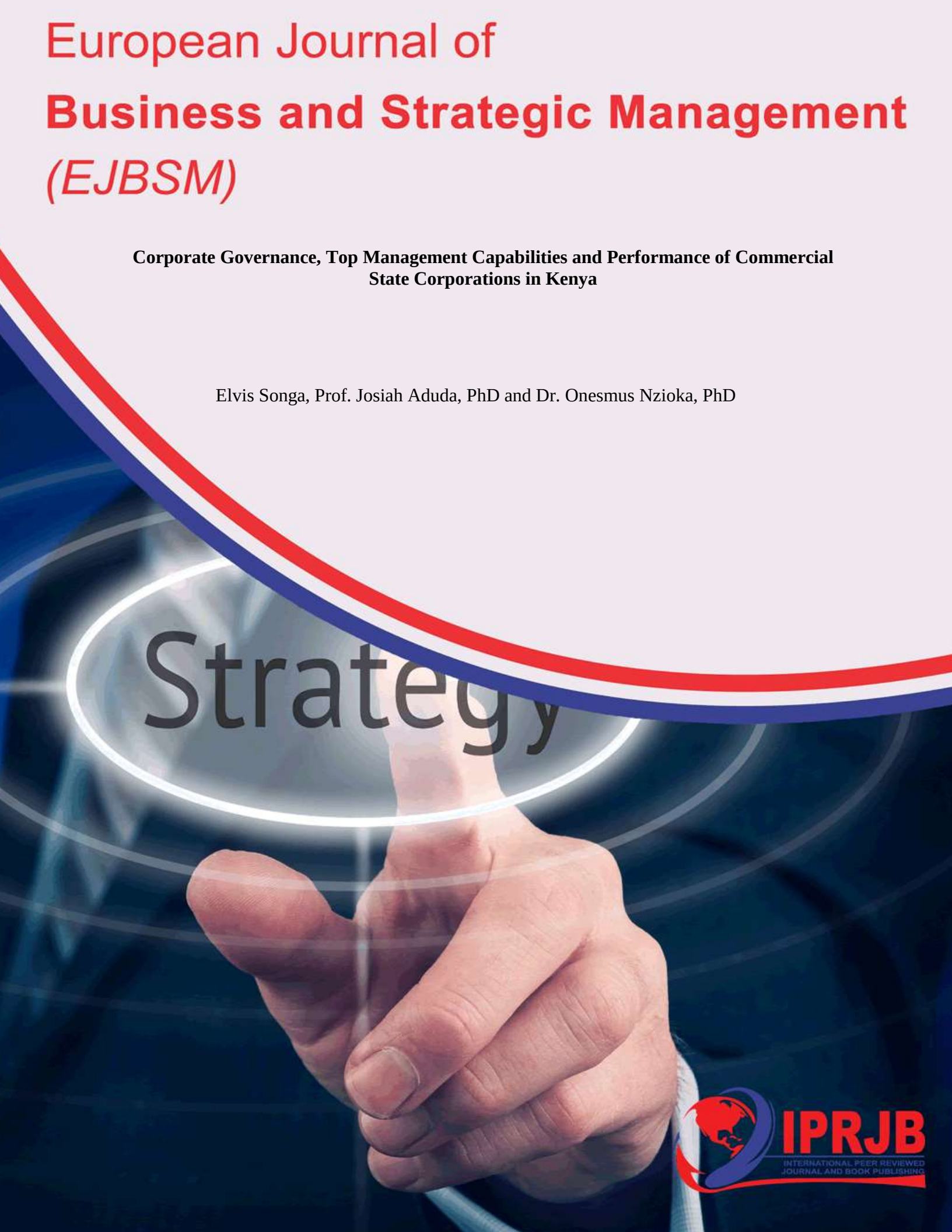


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# Corporate Governance, Top Management Capabilities and Performance of Commercial State Corporations in Kenya

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**Abstract**

**Purpose:** Commercial state corporations refer to a State or county corporation or agency and includes a subsidiary of a state or county agency. Commercial state corporations can perform roles commercially and some non-commercially but which serve a strategic socio-economic objective as may be defined by the president in various instances. Commercial state corporations are central players in the initiative to foster national growth. The objective of this study was to determine the top management in the relationship between corporate governance and performance of commercial state corporations in Kenya.

**Methodology:** The variables considered in this paper are corporate governance conceptualized as an independent variable and anchored on agency 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. With the aid of key informants from these corporations, 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 regression analysis for hypotheses and other statistical tests.

**Findings:** The study discovered that top management capabilities positively and statistically intervene the relationship between corporate governance and performance.

**Unique Contribution to Theory, Practice and Policy:** The results support assertions of the agency theory that corporate governance is key for organisations that need to achieve superior competitiveness over the long-term and thus outperform rival firms. Stewardship theory (ST), upper echelon theory (UET) and resource dependency theory were applied to expound the empirical connections, hence expanding knowledge of the subject under investigation. Policymakers can utilise the findings to develop favourable technology policies and robust regulatory frameworks to manage competition. Therefore, commercial state corporations must take a keen interest in scanning the market for emerging technologies in the country. The findings enriched the subject matter by reducing the three gaps that were identified by the study first, the constructs of interest; corporate governance, macro environment and top management capabilities to performance had not been studied in the commercial state corporations in Kenya.

**Keywords:** *Corporate Governance, Top Management Capabilities, Performance, Commercial State Corporations*

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## INTRODUCTION

Corporate governance is the foundation of all corporations because every organization needs to be governed. Governance tends to be a significant problem facing the globe as a result of the expansion of organizations in terms of scope, size, and activity (Clarke & Rama 2008). Currently, every nation makes an effort to implement corporate governance in a manner appropriate to its culture, economy, political system, and legal system. There exist no universally recognized meaning of corporate governance due to variety of business issues it addresses, including accountability, transparency, and social responsibility.

Corporate governance plays a significant part in firm 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 in achieving 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 will be measured by CEO duality, committee structures, board structures and ownership structure ((Tanjung, 2019).

Organization efficiency is significantly dependent on top management team (Pegels & Yang, 2000). Bathula and Singh (2015) posited that top management capabilities influences organization performance. According to Adner and Helfat (2003), top management's capabilities are capabilities which management build and integrates firm resources and competences. Top management's capabilities affect innovative and operational task which enhances output. (Salehi, DashtBayaz, & Moghadam, 2018). According to upper echelon theory organization success is driven by top management teams (Tseng & Lee, 2014).

Main aim of every organization which seeks to expand and endure in a competitive market is performance (Kakanda, Bello & Abba, 2016). Because it is such a comprehensive and multidimensional construct, performance indicators and assessments vary depending on the application within organizations and between industries (Combs, Crock & Shook, 2005). Organizations utilize a variety of qualitative and quantitative performance metrics.

The context of the study is commercial state corporations in Kenya. State corporations refer to a State or county corporation or agency and includes a subsidiary of a state or county agency, (Government Owned Entities Bill, 2014). Well managed businesses have largely done well and good management is key to financial success of a firm. On the other hand, majority of state corporations in Kenya are poorly managed resulting into loss making. This has been necessitated by the appointment of top management which solely depend on political patronage as opposed to capabilities. The poor performance is further compounded by lack of corporate governance in the corporations. State corporations can perform roles commercially and some non-commercially but which 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 wanting in the state corporations and 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.

Good corporate governance safeguards a corporation from susceptibility to potential financial losses (Bhagat & Black, 2002). To this respect, well managed businesses have largely done well and good management is key to financial success of a firm. Contextually, the study focuses on government owned entities. State owned entities plays vital role in government activities and delivery of basic services to the citizens. Government through State Corporation is active in main sector of the economy such as utilities, services, transportation and constructions. Conceptually; Donaldson (2003), posited that an effective corporate governance structure allows an organization to draw funding, financing, and build the framework for financial standing. Solomon (2013) stressed the significance of good corporate governance and claimed that corporate governance means a series of relationships that gradually embrace good corporate management practices between parastatal management, leadership and stakeholders. Mwangi and Machuki (2015) found that listed companies in Kenya were non-performing raising a concern from foreign and local investors on the leadership style of these firms. Okiro, Aduda and Omoro (2015) studied effect of corporate governance and capital structure on performance of firms listed at EAC Securities Exchange using a descriptive cross-sectional design the study found direct substantial intervening effect. This research endeavors to fill gaps by collectively incorporating corporate governance, macro environment, top management capabilities and performance.

According to agency theory, unless enterprises develop suitable governance structures to safeguard interest of shareholders, managers will not focus on shareholders wealth maximization (Jensen & Meckling, 1976). Thus, by applying agency theory state corporations in Kenya will improve their governance and minimize the shareholders management conflicts. Stewardship theory is pertinent Kenyan state corporations since stewards are bestowed responsibility of making decisions which have impact on general performance of the organization, and thus they have to operate in paramount attention of stakeholders by ensuring family adhere to corporate governance. Upper echelon theory is relevant to state corporations in Kenya as it steers conceptualization of top management capabilities on relationship between CG and performance

## LITERATURE REVIEW

Firm's effectiveness and strategy mirror the beliefs and values of its senior executives and other influential players (Carpenter et al. 2004). The way top managers view their company milieu affects strategic decisions they make, which later influences how well a firm performs. Environment that senior managers can view depends on their demographics, and what they see influences strategic decisions made which impacts on organizations success. According to Bantel and Jackson (1989), the structure of the senior managing team has effect on both novelty and general output.

Implementation of diversity practices was shown by Nishii, Gotte, and Raver (2007) to be favorably correlated with the demographic diversity of senior management. The arguments made by upper echelon theory have resulted in a substantial body of work in the study of TMTs' contributions to performance, demonstrating that top managers' personality traits affect outcomes like performance (Zenger & Lawrence, 1989). Critics of this theory emphasize it leans on the

"demographics" perspective and neglect "psychographic" elements, leading to causal descriptions rather than causal explanations. The idea of studying demographics proxy by going beyond demographics has been put up (Carpenter et al., 2004). Upper echelon theory steered conceptualization of top management capabilities on relationship between corporate governance and performance.

Managers ought to gain and manage resources in industrious means to efficiently utilize available assets. Top managers' skills and capabilities are meaningfully related to resource procurement (Spithoven & Teirlinck, 2015). Top team needs the entrepreneurial competences to evaluate existing state of assets, pursue prospects in outside milieu occasioned by dynamics of outside environment demographic (Koryak et al., 2015).

Sahimi, Rizal, Husin and Kamarudin, (2017), opined that growth in organization are significantly influenced by entrepreneurial activities and management capabilities. Mugwang'a (2018) found that the combined impact of CG and CSR is superior to single influence of TMT traits on firm performance. Fama (1980) found that, in addition to owning shares and equity options, CEO intellectual capital is often unique to the company where management is less equal than their owners. Margarethe et al. (2017), showed that higher level team of managers' cognitive perspectives, as depicted in a team's demographic traits, are associated with the team's tendency to change corporate strategy.

Nielson and Nielson (2013) opined that culturally diverse top management capabilities would provide firm with superior performance. Hermano and Martin-Cruz (2016) acknowledged that dynamic capabilities mediates association amid top management capabilities and organization efficiency. Huynh et al., (2018) found a significate association between top management capabilities, dynamic capabilities and organization performance. Management capabilities reduces spurious costs and enables organizations to create new profit opportunities (Gillis et al., 2018; Koryak et al., 2015). According to Jiang et al (2018), top management capabilities at the onset does not affect organization performance but later enables firm acquire resources which improves profitability. The reviewed studies show that the results are inconclusive and also none of the studies reviewed used tested the mediating effect of top management capabilities on the relationship between corporate governance and performance of commercial state corporations in Kenya. This study therefore sought to fill these gaps by answering the question what is the effect of top management capabilities on the relationship between corporate governance and performance of commercial state corporations in Kenya?

## METHODOLOGY

The study used a cross-sectional descriptive survey as a research design. Target population of the study comprised of 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). Top management capabilities (Bathula & Singh, (2015)) as knowledge, skills and aptitudes. Performance (Tarawneh, 2006; Kaplan, R. and Norton, D. ,1992) as financial (ROA) and non-financial (customer, internal processes, learning and growth, corporate social responsibility and environmental impact). To accomplish mediation using a causal steps strategy, Baron and Kenny (1986) identified four essential conditions that should be met. First,

there should be a significant relationship between the independent variable (corporate governance) and dependent variable (performance). Secondly, there should be a significant relationship between the independent variable (corporate governance) and the mediator (top management capabilities). Thirdly, the mediating variable (top management capabilities) may be significantly related to the dependent variable (performance) while controlling for the independent variable (corporate governance). Fourthly, the independent variable (corporate governance) should be insignificantly related to the dependent variable (performance) while controlling for the mediator (top management capabilities).

According to Mahuika and Mahuika (2020) sampling frame defines the population from which the sample will be drawn and to which the sample data will be generalised. In this study, sampling frame comprised of 47 commercial state corporations. Commercial state corporations are income generating entities, managed by management board and governed by best practices of governance. They are expected to file their audited reports on performance annually. According to Singh (2022), a sampling technique refers to the method used to select a subset of individuals, items, or data points from a larger population to make inferences about the population. The most appropriate sampling techniques for this study was simple random sampling as it allows for a good representation of the whole population while considering potential subgroups within it, since a complete list of population members was available. Since the population was small a census study was carried out.

## FINDINGS AND DISCUSSIONS

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

$H_{0:}$ There is no significant mediating effect of Top management capabilities on the relationship between corporate governance and performance of commercial state corporations in Kenya.

The findings are presented in Tables below.

### Non-Financial Performance outputs

In step one performance was regressed on corporate governance. The results are as shown in Table 1 below.

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**Table 1: Corporate Governance and Performance (non-Financial)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .743[a] | .553 | .540 | .30830 | .553 | 43.248 | 1 | 35 | .000 | 1.832 |

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.111 | 1 | 4.111 | 43.248 | .000[b] |
| | Residual | 3.327 | 35 | .095 | | |
| | **Total** | **7.437** | **36** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | 1.112 | .475 | | 2.342 | .025 | .148 | 2.076 | | |
| | Corporate Governance | .717 | .109 | .743 | 6.576 | .000 | .495 | .938 | 1.000 | 1.000 |

a. Dependent Variable: Performance
b. Predictors: (Constant), Corporate Governance

In step one non-financial performance was regressed on corporate governance. The results indicated that corporate governance accounted for 52.3 percent of variation in non-financial performance. The model was overall significant ($F = 43.248$, p-value<0.05). Corporate governance ($t = 6.576$, p-value<0.05) was individually significant. Conditions of step one of mediation was met, thus, analysis moved to step two.

In step two top management capabilities was regressed on corporate governance. The results are as shown in Table 2 below.

Table 2: Corporate Governance and Top Management Capabilities (non-Financial)

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .636[a] | .405 | .388 | .42417 | .405 | 23.145 | 1 | 34 | .000 | 1.295 |

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.164 | 1 | 4.164 | 23.145 | .000[b] |
| | Residual | 6.117 | 34 | .180 | | |
| | **Total** | **10.281** | **35** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | .728 | .675 | | 1.078 | .288 | -.644 | 2.100 | | |
| | Corporate Governance | .743 | .154 | .636 | 4.811 | .000 | .429 | 1.057 | 1.000 | 1.000 |

a. Predictors: (Constant), Corporate Governance
b. Dependent Variable: Top management Capabilities

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In step two top management capabilities was regressed on corporate governance. The results indicated that corporate governance accounted for 40.5 percent of variation in top management capabilities. The model was overall significant (F = 23.145, p-value<0.05). Corporate governance (t = 4.811, p-value<0.05) was individually significant. Conditions of step two of mediation was met, thus, analysis moved to step three.

In step three performance was regressed on top management capabilities. The results are as shown in Table 3 below.

**Table 3: Top Management Capabilities and Performance (non-Financial)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .836[a] | .699 | .690 | .23840 | .699 | 74.344 | 1 | 32 | .000 | 2.112 |

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.225 | 1 | 4.225 | 74.344 | .000[b] |
| | Residual | 1.819 | 32 | .057 | | |
| | **Total** | **6.044** | **33** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | 1.722 | .297 | | 5.792 | .000 | 1.116 | 2.328 | | |
| | Top management Capabilities | .641 | .074 | .836 | 8.622 | .000 | .490 | .793 | 1.000 | 1.000 |

a. Predictors: (Constant), Top management Capabilities
b. Dependent Variable: Performance

In step three performance was regressed on top management capabilities. The results indicated that top management capabilities accounted for 69.9 percent of variation in performance. The model was overall significant (F = 23.145, p-value<0.05). Top management capabilities (t = 8.622, p-value<0.05) was individually significant. Conditions of step three of mediation was met, thus, analysis moved to step four.

In step four performance was regressed on corporate governance and top management capabilities. The results are as shown in Table 4 below.

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**Table 4: Corporate Governance, Top Management Capabilities and Performance (non-Financial)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .879[a] | .773 | .758 | .21054 | .773 | 52.680 | 2 | 31 | .000 | 2.591 |

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.670 | 2 | 2.335 | 52.680 | .000[b] |
| | Residual | 1.374 | 31 | .044 | | |
| | **Total** | **6.044** | **33** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | 1.026 | .342 | | 2.995 | .005 | .327 | 1.724 | | |
| | Corporate Governance | .317 | .100 | .353 | 3.167 | .003 | .113 | .521 | .591 | 1.691 |
| | Top management Capabilities | .468 | .085 | .611 | 5.482 | .000 | .294 | .643 | .591 | 1.691 |

a. Dependent Variable: Performance
b. Predictors: (Constant), Top management Capabilities, Corporate Governance

In step four performance was regressed on corporate governance and top management capabilities. The results indicated that corporate governance and top management capabilities accounted for 77.3 percent of variation in performance. The model was overall significant ($F = 52.680$, p-value<0.05). Both corporate governance ($t = 3.167$, p-value<0.05) and top management capabilities ($t = 5.482$, p-value<0.05) were individually significant. Thus, full mediation took place. Hypothesis that there is no significant mediating effect of Top management capabilities on the relationship between corporate governance and performance of commercial state corporations in Kenya was rejected.

### Financial Performance outputs

In step one performance was regressed on corporate governance. The results are as shown in Table 5 below.

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## Table 5: Corporate Governance and Performance (Financial)

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .624[a] | .390 | .373 | .46705 | .390 | 23.654 | 1 | 37 | .000 | 1.378 |

**ANOVA[a]**

| 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** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: 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 |

a. Dependent Variable: ROA
b. Predictors: (Constant), Corporate Governance

In step one non-financial performance was regressed on corporate governance. The results indicated that corporate governance accounted for 39 percent of variation in non-financial performance. The model was overall significant ($F = 23.654$, p-value<0.05). Corporate governance ($t = 4.864$, p-value<0.05) was individually significant. Conditions of step one of mediation was met, thus, analysis moved to step two.

In step two top management capabilities was regressed on corporate governance. The results are as shown in Table 6 below.

## Table 6: Corporate Governance and Top Management Capabilities (Financial)

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .636[a] | .405 | .388 | .42417 | .405 | 23.145 | 1 | 34 | .000 | 1.295 |

**ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 4.164 | 1 | 4.164 | 23.145 | .000[b] |
| | Residual | 6.117 | 34 | .180 | | |
| | **Total** | **10.281** | **35** | | | |

**Coefficients[a]**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | .728 | .675 | | 1.078 | .288 | -.644 | 2.100 | | |
| | Corporate Governance | .743 | .154 | .636 | 4.811 | .000 | .429 | 1.057 | 1.000 | 1.000 |

a. Predictors: (Constant), Corporate Governance
b. Dependent Variable: Top management Capabilities

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In step two top management capabilities was regressed on corporate governance. The results indicated that corporate governance accounted for 40.5 percent of variation in top management capabilities. The model was overall significant (F = 23.145, p-value<0.05). Corporate governance (t = 4.811, p-value<0.05) was individually significant. Conditions of step two of mediation was met, thus, analysis moved to step three.

In step three performance was regressed on top management capabilities. The results are as shown in Table 7 below

**Table 7: Top Management Capabilities and Performance (Financial)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .333[a] | .111 | .085 | .57742 | .111 | 4.240 | 1 | 34 | .047 | 1.582 |

**ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 1.414 | 1 | 1.414 | 4.240 | .047[b] |
| | Residual | 11.336 | 34 | .333 | | |
| | **Total** | **12.750** | **35** | | | |

**Coefficients**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | 2.949 | .719 | | 4.100 | .000 | 1.487 | 4.411 | | |
| | Top management Capabilities | .371 | .180 | .333 | 2.059 | .047 | .005 | .737 | 1.000 | 1.000 |

a. Predictors: (Constant), Top management Capabilities
b. Dependent Variable: ROA

In step three performance was regressed on top management capabilities. The results indicated that top management capabilities accounted for 11.1 percent of variation in performance. The model was overall significant (F = 4.240, p-value<0.05). Top management capabilities (t = 2.059, p-value<0.05) was individually significant. Conditions of step three of mediation was met, thus, analysis moved to step four.

In step four performance was regressed on corporate governance and top management capabilities. The results are as shown in Table 8 below.

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**Table 8: Corporate Governance, Top Management Capabilities and Performance (Financial)**

**Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics: R Square Change | F Change | df1 | df2 | Sig. F Change | Durbin-Watson |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | .632[a] | .400 | .363 | .48154 | .400 | 10.99 | 2 | 33 | .000 | 1.461 |

**ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 5.098 | 2 | 2.549 | 10.99 | .000[b] |
| | Residual | 7.652 | 33 | .232 | | |
| | **Total** | **12.750** | **35** | | | |

**Coefficients**

| Model | | Unstandardized Coefficients: B | Unstandardized Coefficients: Std. Error | Standardized Coefficients: Beta | t | Sig. | 95.0% Confidence Interval for B: Lower Bound | 95.0% Confidence Interval for B: Upper Bound | Collinearity Statistics: Tolerance | Collinearity Statistics: VIF |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | .965 | .779 | | 1.238 | .225 | -.621 | 2.551 | | |
| | Corporate Governance | .906 | .227 | .697 | 3.986 | .000 | .444 | 1.369 | .595 | 1.681 |
| | Top management Capabilities | -.123 | .195 | -.111 | -.632 | .532 | -.519 | .273 | .595 | 1.681 |

a. Predictors: (Constant), Top management Capabilities, Corporate Governance
b. Dependent Variable: ROA

In step four performance was regressed on corporate governance and top management capabilities. The results indicated that corporate governance and top management capabilities accounted for 40 percent of variation in performance. The model was overall significant ($F = 10.993$, p-value<0.05). Corporate governance ($t = 3.986$, p-value<0.05) was individually significant wile top management capabilities ($t = 5.482$, p-value<0.05) was individually insignificant. Thus, partial mediation took place. Hypothesis that there is no significant mediating effect of Top management capabilities on the relationship between corporate governance and performance of commercial state corporations in Kenya was rejected.

## CONCLUSIONS AND RECOMMENDATIONS

The study established that top management capabilities fully mediated the connection of corporate governance and performance, implying that top management capabilities is key to achieving performance of commercial state corporations in Kenya. The findings underscored the need for managers to have deep knowledge of emerging technologies and how they affect their business models; the results also indicated the necessity for constant learning and upscaling skills amongst members of top management. A key insight from the study was that top managers are recruited from within the firm and organization has minimum professional requirements that are considered when recruiting managers. This points to an urgent need for both managers and policy leaders to study and understand the knowledge that are likely to impact all businesses globally in the next decade. The top leaders can only position their businesses to exploit opportunities and mitigate threats presented by such capabilities if they understand how to acquire knowledge.

The findings implied that top management capabilities play a key role in deciding strategic direction for commercial state corporations in Kenya; that is, the key resources required, and enabling capabilities and management systems to deliver a unique customer value proposition. The findings have corroborated and enriched theories in finance management that were used to provide the foundation for this study. This study has shown that applying these theories in the management of firms in the commercial state corporations globally and specifically in Kenya, would help managers understand the challenges they face whilst running their firms in a dynamic and disrupted marketplace. This empirical investigation added new findings to research with regards to the effects of corporate governance, macro environment and top management capabilities on performance. The study found that macro environment and top management capabilities weakened the effect of corporate governance on performance, suggesting that viewed in isolation, corporate governance cannot guarantee sustained performance amongst commercial state corporations in Kenya.

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