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Abstract

Purpose: This study aimed at establishing the moderating effect of macro environment on the relationship between corporate governance and performance of commercial state corporations in Kenya. Purpose of macro environment scanning is to assist firms to know main development and impending consequences. The purpose of the study was to examine the effect of the macro environment on the relationship between corporate governance and performance of commercial state corporations in Kenya in Kenya.

Methodology: The study adopted a cross sectional descriptive survey design, using a sample of 47 commercial state corporations. Hypothesis was formulated to address this objective. The study used stepwise regression analysis to test moderating effect. The results were interpreted using coefficient of determination, t test, F- test and p-values.

Findings: The study found that when the moderating variable was introduced, the power of corporate governance to drive performance was enhanced. This confirmed that macro environment significantly moderated the relationship between corporate governance and performance amongst commercial state corporations in Kenya.

Unique Contribution to Theory, Practice and Policy: The results of this study have contributed to theory. It is recommended that organizations improve corporate governance, scan their environment so as to improve on their performance.

Keywords: *Corporate Governance, Macro Environment, Performance, Commercial State Corporations, Kenya*

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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.

Macro environment is made up of variables out of control of a firm, but requires scrutiny to realign strategies to dynamic firm environments. Macro environment is observed in aspects of PESTEL. Purpose of macro environment scanning is to assist firms to know main development and impending consequences. Dynamic aspect of milieu is where organization behavior varies from one perspective to the other based on the mitigating capability. Environmental dynamics is a performance determinant (Adeoye & Elegunde, 2012).

According to Machuki and Aosa (2011), organization outcome is associated with vitality of association which exists between a firm and its working environment. Environment can create risk or provide opportunity needed to spur output (Hubbard, 2009). If an organization predicts accurately and with certainty the shifting social, technical, political, economic, environmental, and legal variables, then it would efficiently achieve competitive advantage and enhanced performance (Herbane, 2009). Dynamic nature of the macro environment offers a test for identifying which milieu a firm needs to pick in order to succeed, the timing of operations and activities. Economic influences, demographic aspects, technological aspects, natural and physical aspects, political and legal aspects, and social and cultural pressures are examples of macro environmental elements. Macro environment will be measured using political, economic, social, technological, environmental and legal factors (Pearce et al, 2012).

Areba (2011) found a1strong correlation1between1corporate and state governance activities amongst commercial companies. Aduda, Chogii and Magutu (2013) evaluated effect of corporate governance theories on operations of organizations operating at Nairobi Securities Exchange. It was revealed that majority of the examined organizations favored outside directors over internal ones. Machuki and Aosa (2011) evaluated effect of external environment on performance of Kenya's public traded enterprises using cross-sectional survey and primary data. None of these studies used descriptive research design, thus the study utilized this design as it allows for data collection over a set of variables at some specified time. Though the mandates of the state-owned entities are clearly articulated, there are faced with a myriad of challenges which includes poor financial management, financial constraints, lack of service delivery, lack of accountability, and little growth, corruption and low business confidence. These challenges are major threats to development of the country budget as well as financial sustainability as quite often the entities receive bailout from the government to remain afloat. Based on the gaps identified, the research sought to fill these gaps by answering the question; does macro environment have an effect on association between corporate governance and performance of commercial state corporations in Kenya?

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LITERATURE REVIEW

The resource dependence theory stresses how external directors help a company better insulate itself from the outside world, reduce ambiguity, or coax resources that enable firms to be well-known and get more respect (Kor & Misangyi, 2008). Hilman et al. (2000) posited that executives perform a crucial function in linking the environment to resources which are critical to the company, that is, managers appointed to the company should take advantage of the company. Peace et al. (2012) suggested that corporate success can be accomplished and maintained by business managers. The fundamental idea for the theory of resource dependence is to link the business with external resources environmentally (Johanson & Ostergren, 2010). In this regard, the directors link the company by co-opting the tools required for survival with external factors (Bacon, 2013).

Organization performance is not independent of its environment, which presents both opportunities and problems (Nyanja, Ogutu & Pellisier, 2012). Studies have stated that any organization's growth does not happen in void but rather within a specific setting which contains constraints and possibilities (Wakaisuka, 2017). Corporate governance is a structure that safeguards the return on investment for firms' financiers (La Porta et al. 2002). Wakaisuka (2017) discovered that financial institution performance in Uganda could maximize value by pursuing best practices in CG, firm characteristics, and external environment.

According to Abayomi and Oyobami (2012), businesses identify the opportunities and challenges given by the external environment's legal, sociological, political, economic, technological, and infrastructural variables. Halme and Huse (1997) revealed that board of directors' variables were directly connected to variations in corporate environmental reporting. Mahoney and Roberts (2002), found that ownership structure characteristics are favorably correlated with environmental performance metrics. Organizations with big, diversified boards are least expected to embrace strategic change than the ones with lesser, similar members. Legal framework is a crucial component of corporate governance, according to Gul and Tsui (2004), as it demonstrates public interest responsibility, protects investors, and ensures that investors can exercise their legal rights. Corporate governance, accountability, and managerial skills significantly influence financial performance of Ugandan commercial banks (Mwesigwa, Nansiima & Suubi 2014).

Corporate governance amongst state corporations in Kenya is anchored on the Mwongozo Code of Governance for State Corporations (2015). Mwongozo addresses matters of effectiveness of boards, transparency and disclosure, accountability, risk management, internal controls, ethical leadership and good corporate citizenship. These practices are at the core of the values and principles of public service as enshrined under article 232 of the constitution of Kenya, 2010. Mwongozo also provides a platform for addressing shareholders rights and obligations and ensuring more effective engagement with stakeholders. More importantly Mwongozo ensure that sustainability, performance and excellence become the hallmark of management of state corporations. Mwongozo further builds on gains realized from past reform efforts in the state corporations' sector.

Managers uses external resources to link the company with overwhelming uncertainty because effective management with uncertainty is essential to the company's existence (Bacon, 2013). The theory is relevant in this research because the state-owned entities tend to exist in a business environment and it requires resources from the environment that it exists, external directors in this case have a greater chance of linking the entities to the external resources environmentally. In this study, resource dependence theory guides the conceptualization of the macro environment, which is the moderating variable.

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). Macro Environment (Pearce et al, (2012) as political, economic, technological, social, legal and ecological. 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). The moderating effect of macro environment on the relationship between corporate governance and performance of commercial state corporations in Kenya was tested using stepwise regression analysis, where corporate governance, macro environment and interaction term were regressed on performance at 5 percent significance level.

FINDINGS AND DISCUSSIONS

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

$H_{0:}$ Macro environment does not moderate the relationship between corporate governance and performance of commercial state corporations in Kenya.

The findings are presented in Table1 and Table 2 below.

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

Model Summary

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
1	.723[a]	.523	.509	.29818	.523	37.304	1	34	.000	
2	.869[b]	.756	.741	.21661	.233	31.428	1	33	.000	
3	.875[c]	.766	.744	.21524	.010	1.421	1	32	.242	2.444

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.317	1	3.317	37.304	.000[b]
	Residual	3.023	34	.089		
	Total	**6.340**	**35**			
2	Regression	4.791	2	2.396	51.058	.000[c]
	Residual	1.548	33	.047		
	Total	**6.340**	**35**			
3	Regression	4.857	3	1.619	34.947	.000[d]
	Residual	1.482	32	.046		
	Total	**6.340**	**35**			

Coefficients[a]

		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.349	.477		2.829	.008	.380	2.319		
	Corporate Governance	.666	.109	.723	6.108	.000	.444	.887	1.000	1.000
2	(Constant)	.720	.364		1.976	.057	-.021	1.461		
	Corporate Governance	.360	.096	.391	3.740	.001	.164	.555	.678	1.475
	Macro Environment	.515	.092	.586	5.606	.000	.328	.701	.678	1.475
3	(Constant)	.980	.423		2.319	.027	.119	1.842		
	Corporate Governance	.372	.096	.404	3.869	.001	.176	.567	.670	1.492
	Macro Environment	.424	.119	.482	3.561	.001	.181	.666	.399	2.509
	IT	.263	.053	.141	4.962	.003	-.045	.170	.526	1.901

a. Dependent Variable: Performance
b. Predictors: (Constant), Corporate Governance
c. Predictors: (Constant), Corporate Governance, Macro Environment
d. Predictors: (Constant), Corporate Governance, Macro Environment, IT

Moderation was tested sing three steps. 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 = 37.304, p-value<0.05). Corporate governance (t = 6.108, p-value<0.05) was individually significant. Conditions of step one of moderation were met, thus, analysis moved to step two.

In step two non-financial performance was regressed on both corporate governance and macro environment. Both corporate governance and macro environment were treated as independent variables. The results indicated that corporate governance and macro environment accounted for 75.6 percent of variation in non-financial performance. The model was overall significant (F = 51.058, p-value<0.05). Corporate governance (t = 3.740, p-value<0.05) and macro environment (t

= 5.606, p-value<0.05) were individually significant. Conditions of step two of moderation were met, thus, analysis moved to step three.

In step three, interaction term was introduced in the model. Corporate governance macro environment and interaction term accounted for 76.6 percent of variation in non-financial performance. The model was overall significant (F = 34.947, p-vale<0.05). Interaction term (t = 4.962, p-value<0.05) was significant. Hence, moderation took place. Hypothesis that there is no significant moderating effect of macro environment on the relationship between corporate governance and performance of commercial state corporations in Kenya was rejected.

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

Model Summary

					Change Statistics					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**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
2	.667[a]	.445	.413	.42524	.445	13.639	2	34	.000	1.371
3	.670[a]	.449	.399	.43000	.449	8.977	3	33	.000	1.286

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	4.933	2	2.466	13.639	.000[b]
	Residual	6.148	34	.181		
	Total	**11.081**	**36**			
3	Regression	4.979	3	1.660	8.977	.000[b]
	Residual	6.102	33	.185		
	Total	**11.081**	**36**			

Coefficients

		Unstandardized Coefficients		**Standardized Coefficients**			**95.0% Confidence Interval for B**		**Collinearity Statistics**	
Model		**B**	**Std. Error**	**Beta**	**t**	**Sig.**	**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)	.817	.701		1.166	.252	-.607	2.240		
	Corporate Governance	.722	.187	.595	3.864	.000	.342	1.101	.688	1.454
	Macro Environment	.372	.168	.116	2.214	.005	-.214	.468	.688	1.454
3	(Constant)	.643	.788		.816	.420	-.960	2.247		
	Corporate Governance	.718	.189	.592	3.796	.001	.333	1.102	.687	1.457
	Macro Environment	.284	.105	.169	2.705	002	-.232	.600	.473	2.116
	Interaction term	.249	.097	-.083	2.567	.019	-.246	.149	.618	1.618

a. Dependent Variable: ROA
b. Predictors: (Constant), Corporate Governance
c. Predictors: (Constant), Corporate Governance, Macro Environment
d. Predictors: (Constant), Interaction term , Corporate Governance, Macro Environment

Using three steps of moderation. In step one financial performance was regressed on corporate governance. The results indicated that corporate governance accounted for 39 percent of variation in 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 moderation were met, thus, analysis moved to step two.

In step two financial performance was regressed on both corporate governance and macro environment. Both corporate governance and macro environment were treated as independent variables. The results indicated that corporate governance and macro environment accounted for 44.5 percent of variation in financial performance. The model was overall significant (F = 13.639, p-value<0.05). Corporate governance (t = 3.864, p-value<0.05) and macro environment (t = 2.214, p-value<0.05) were individually significant. Conditions of step two of moderation were met, thus, analysis moved to step three.

In step three, interaction term was introduced in the model. Corporate governance macro environment and interaction term accounted for 44.9 percent of variation in financial performance. The model was overall significant (F = 8.977, p-vale<0.05). Interaction term (t = 2.567, p-value<0.05) was significant. Hence, moderation took place. Hypothesis that there is no significant moderating effect of macro environment on the relationship between corporate governance and performance of commercial state corporations in Kenya was rejected.

CONCLUSION AND RECOMMENDATIONS

The study found that when the moderating variable was introduced, the power of corporate governance to drive performance was enhanced. Holding other factors constant, macro environment influenced performance in a positive and significant manner. The study further found that political and technological aspects of micro environment had major impact of the relationship between corporate governance and performance of commercial state corporations in Kenya. These findings suggest that to remain competitive, firms need to consider both corporate governance and macro environment in their strategies. Macro environments require firms to be prompt, effective, decisive and ambidextrous in their strategic manoeuvres; in other words, they should align corporate governance with macro environment and take advantage of the macro environment to outmanoeuvre rivals to remain competitive over the long haul.

The findings implied that corporate governance 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 commercial state corporations in Kenya be aligned to macro environment within which the firm operates. This study has provided illuminating insights into how commercial state corporations are playing and aligning their strategies is a disrupted macro environment. 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 results could also assist policymakers in benchmarking within the study context; commercial state corporations can learn best practices amongst themselves.

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