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INFLUENCE OF TOP MANAGEMENT CAPABILITIES ON FINANCIAL PERFORMANCE OF COMMERCIAL STATE CORPORATIONS IN KENYA

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Abstract

Overall performance of an organization is substantially influenced by the capabilities and strategic decisions of its top management team. Talented executives help align strategies across different business units, which not only boosts firm performance but also strengthens resilience during tough times. This evidence emphasizes how crucial it is to build managerial skills so as to access organizational success. The objective of this study was to determine the relationship between top management capabilities and financial performance of commercial state corporations in Kenya. The study was anchored on upper echelon theory. The study applied positivism research philosophy and descriptive cross-sectional design with target population constituted 47 commercial state corporations. A structured questionnaire that contained closed ended questions was used to collect data from the respondents. The study found that top management capabilities accounted for 11.1 percent of the variation in financial

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performance. This relationship was statistically significant in overall as well as individual at 5 percent significance level. The study concluded that top management capabilities have a positive and statistically significant relationship with the financial performance of commercial state corporations in Kenya. The findings highlighted the importance of knowledge, skills and aptitude in enhancing financial performance. The study recommended that boards of directors prioritize appointing and retaining competent managers with strong leadership, financial management and analytical skills. It further recommended continuous professional development to strengthen managerial competencies in strategic planning, risk management and resource allocation. Finally, top management teams should adopt evidence-based strategic planning, financial analysis and risk assessment to improve resource utilization, identify profitable opportunities and promote financial sustainability.

Keywords: Top Management Capabilities, Strategic Leadership, Financial Performance, Commercial State Corporations, Kenya

INTRODUCTION

Overall performance of an organization is substantially influenced by the capabilities and strategic decisions of its top management team (Pegels & Yang, 2000). Bathula and Singh (2015) emphasize that the competencies of senior managers are instrumental in shaping outcomes. The expertise and competencies of senior managers plays significant role in firm's capability to detect and secure the resources required for its operations and growth (Spithoven & Teirlinck, 2015). In addition, top management teams require entrepreneurial capabilities that enable them to assess the organization's existing resource base, identify emerging opportunities, and respond strategically to changes within the external environment (Koryak et al., 2015). These capabilities are particularly important in dynamic environments, where demographic, economic, technological, and other external changes can create prospects and constraints for organizations. Adner and Helfat (2003) conceptualize top management capabilities as managerial capacity to develop, combine, and effectively utilize an organization's resources and competencies as circumstances evolve. Such capabilities enable senior managers to facilitate innovation, improve operational processes, and coordinate organizational resources more effectively, ultimately contributing to enhanced organizational outcomes (Salehi, DashtBayaz, & Moghadam, 2018).

Firm performance is fundamental objective for firms seeking to attain sustainable growth and remain competitive in dynamic markets (Kakanda, Bello, & Abba, 2016). However, performance is a broad and multidimensional concept, and its indicators may differ across

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organizations and industries depending on their specific objectives and operational contexts (Combs, Crook, & Shook, 2005). Consequently, organizations employ both qualitative and quantitative indicators for evaluation of achievements of intended objectives. Sustaining satisfactory performance over time is crucial since firms operate within increasingly competitive business environments where their capacity to use assets efficiently can determine their survival and growth. Tarawneh (2006) suggests that the effective utilization of organizational assets is an important reflection of financial performance. More broadly, firm performance encompasses firm capacity to achieve superior financial outcomes, strengthen its market presence, and accomplish its long-term strategic objectives (Taouab & Issor, 2019).

The study was anchored on upper echelon theory (Carpenter et al., 2004). Upper echelons theory proposes that organisational outcomes are partly shaped by the characteristics of senior executives because managers' experiences, values, cognitive orientations, and demographic backgrounds influence how they interpret situations and make strategic decisions (Hambrick & Mason, 1984). The manner in which top managers interpret and evaluate their organizational environment influences strategic decision made, which subsequently affects organizational performance. These interpretations are partly shaped by the demographic characteristics and personal experiences of senior executives, meaning that differences in managerial backgrounds may result in variations in strategic decisions and organizational outcomes. The purpose of this study was to determine the relationship between top management capabilities and financial performance of commercial state corporations in Kenya.

LITERATURE REVIEW

State corporations are essentially corporations or agencies that belong to the state or county, and they even include subsidiaries of these agencies (as outlined in the GOE Bill, 2014). These entities can engage in profitable and not for activities, all aimed at achieving specific socio-economic goals that the president may define in different situations. With the backdrop of ongoing corporate scandals, financial crises, and the growing complexity of global markets, top management capabilities remains a significant concern on a global scale. Zhang et al. (2024) opined that managerial expertise significantly influences organization competences, which are vital in adapting to fast-changing environments. Liu and Chen (2023) highlight how top executives' absorptive capacity the ability to recognize, absorb, and utilize new knowledge performs vital part in promoting firms learning and innovation.

Bantel and Jackson (1989), demonstrated that composition of the top management team can influence firm ability for innovation as well as its overall performance. Therefore, the characteristics and composition of senior management are important considerations in

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explaining differences in organizational strategy, innovation, and success. Sahimi, Rizal, Husin and Kamarudin (2017), examined the influence of management capabilities on association amid entrepreneurial orientation and organization growth. Study found that management capabilities constitute an important driver of firm growth and that entrepreneurial orientation is relevant to organizational growth.

Mugwang'a et al. (2018) investigated how the characteristics of Top Management Teams (TMT), corporate governance (CG), and corporate social responsibility interact to affect organizational performance in large manufacturing firms in Kenya. Findings showed that the combined CG and CSR has strong direct effects, even though TMT characteristics by themselves didn't have significant impact. It implies that to understand organizational performance, it's more effective to consider the combined effects of managerial traits, governance practices, and CSR rather than looking at TMT characteristics in isolation. Margarethe et al. (2017), revealed that changes in intellectual viewpoints of TMT members, as reflected in group demographic characteristics, are related to team propensity to undertake corporate strategic change.

Nielsen and Nielsen (2013), found that nationality diversity within top management teams was directly related with performance, although magnitude of association depended on contextual conditions. Moreso, direct influence of nationality diversity was stronger among teams with a longer history in management, firms that are well-established on the international stage, and organizations flourishing in supportive environments. Patel and Singh (2023) investigated how managerial skills affect firm growth, especially in industries that face intense competition and rapid changes. Research underscored the significance of strategic vision, openness to innovation, and effective crisis management as key managerial skills that contribute to better growth. Kumar and Zbib (2022) examined the relationship between chief executive officer (CEO) managerial ability and firm performance during the COVID-19 crisis. Using financial information from 738 United States firms. The findings revealed that firms led by CEOs with higher managerial ability experienced significantly better stock-market performance and higher ROE than firms led by less capable CEOs. Atawnah et al. (2024) examined the relationship between managerial ability and firm value using data from United States companies covering three decades. The findings indicated a positive association between managerial ability and firm value.

Mwajambia and Kising'u (2022) investigated the effect of dynamic managerial capabilities on the performance of travel agencies and tour operators in Mombasa County, Kenya. The findings indicated that the three dimensions of dynamic managerial capabilities positively and significantly predicted firm performance. Nguyen et al. (2023), demonstrated that

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managerial ability was associated with stronger operating performance and lower financial risk during the COVID-19 crisis. Thus, managerial competencies may contribute to financial performance by improving the quality of strategic decisions, strengthening access to resources and increasing firms' capacity to withstand uncertainty.

The relationship between top management capabilities and financial performance was illustrated in the conceptual framework presented below. Top management capabilities constituted the independent variable, while financial performance was the dependent variable. Top management capabilities was conceptualized in terms of knowledge, skills and aptitude while financial performance was operationalized I terms of return on assets.

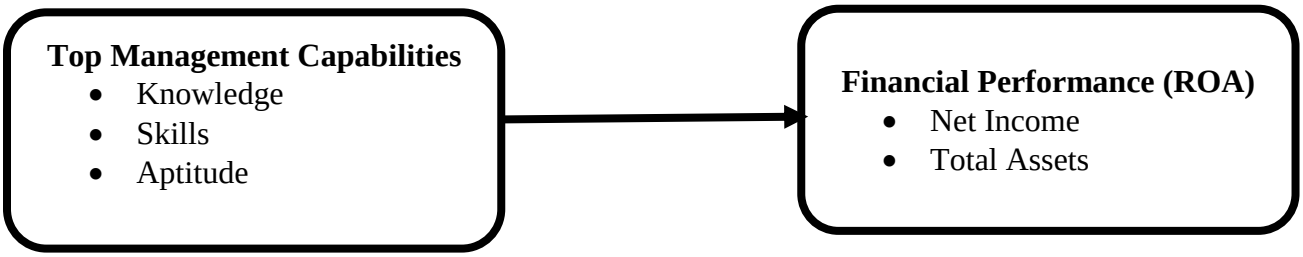


Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

The study was guided by positivistic perspective as it was grounded on theory and test of hypothesis. Positivism seeks to explain and predict phenomena through systematic observation, empirical measurement and hypothesis testing. It emphasizes objectivity, replicability and the generation of findings that can be generalized to broader populations (Park et al., 2020). The study used a cross sectional research design. Churchill (1991), opined that this design determines association between variables. This study involved entirely 47 commercial state corporations in Kenya. This study used the entire population since the number of firms is manageable. Lekaram (2023), used census method to examine knowledge capabilities and organizational performance in Kenya

The study collected data primary data on top management capabilities using structured questionnaire while data on financial performance (ROA-income and total assets) was collected from annual reports of the corporations The target respondents were chief executive officers and managers because they were well conversant with the information on the study variables. Simple linear regression analysis was used to assess the relationship between top management capabilities and financial performance of commercial state corporations in Kenya.

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FINDINGS AND DISCUSSIONS

The hypothesis formulated was that;

H_{01} Top Management Capabilities does not significantly influence financial performance of commercial state corporations in Kenya.

Table 1: Relationship between Top Management Capabilities and Financial Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R^2 Change	F Change	df1	df2	Sig. F Change	
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		Standardized Coefficients			95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound	Tolerance	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

Explanatory: (Constant), Top management Capabilities

Response Variable: ROA

Financial performance was regressed on top management capabilities. Results revealed that 11.1 percent of the performance variation was attributable to top management capabilities. The model of financial performance on top management capabilities was significant in overall (F-value = 4.24, P = 0.047<0.05). The coefficient of top management capabilities (β = 0.371, p<0.05) indicated that for every one-unit increase in top management capabilities, financial

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performance increases by 0.371 other factors held constant. This icoefficient was individually significant at 5 percent level of significance. The results indicated that top management capabilities positively influence financial performance of commercial state corporations in Kenya, thus hypothesis was rejected.

The predictive equation was of the form;

Financial Performance = 2.949 + 0.371 Top Management Capabilities

The positive relationship is explained by the role of senior managers in formulating corporate strategies, allocating resources, monitoring performance and responding to financial challenges. Thus, managers with stronger capabilities are better positioned to identify profitable opportunities, control operational costs, improve resource utilization and formulate strategies that enhance revenue generation. For commercial state corporations, these capabilities are particularly important because such organizations must balance commercial objectives with public-sector accountability and other institutional responsibilities. Effective top management helps corporations improve operational efficiency, manage expenditure and make investment decisions that support financial sustainability.

The findings are supported by upper echelon theory which proposes that organisational outcomes are partly shaped by the characteristics of senior executives because managers' experiences, values, cognitive orientations, and demographic backgrounds influence how they interpret situations and make strategic decisions (Hambrick & Mason, 1984). The findings are in line with Margarethe et al. (2017), who revealed that a team's propensity to alter corporate strategy is linked to the cognitive perspectives of higher level managers, which are reflected in the team's demographic characteristics. The findings supported those of Kumar and Zbib (2022), who revealed that firms led by CEOs with higher managerial ability experienced significantly better stock-market performance and higher ROE than firms led by less capable CEOs. The results conform to those of Nielsen and Nielsen (2013), found that nationality diversity within top management teams was directly related with performance, although magnitude of association depended on contextual conditions.

CONCLUSION AND RECOMMENDATIONS

The study concluded that top management capabilities have a positive and statistically significant relationship with the financial performance of commercial state corporations in Kenya. The findings concluded that top management capabilities are important in enhancing financial performance through effective strategic planning, resource allocation, performance monitoring and decision-making.

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The study recommended that; boards of directors and relevant appointing authorities of commercial state corporations should prioritize the appointment and retention of senior managers with demonstrated strategic leadership, financial management, analytical and decision-making capabilities. Recruitment and promotion processes should emphasize professional qualifications, relevant managerial experience, integrity and evidence of performance. In addition, corporations should establish continuous professional development programmes to strengthen managers' competencies in strategic planning, risk management, financial analysis and resource allocation. These measures could improve the quality of managerial decisions and support better financial performance.

The study further recommended that top management teams should strengthen strategic planning processes by incorporating financial analysis, market assessments, risk evaluation and evidence-based decision-making into corporate strategy formulation. Managers should regularly assess the financial implications of strategic initiatives and ensure that organizational objectives are aligned with available resources and long-term sustainability goals. Strategic decisions should also be informed by reliable financial information and periodic reviews of changing business conditions. This would enable commercial state corporations to identify profitable opportunities, respond to financial challenges and make informed investment decisions.

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