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Influence of Organization Capabilities on the Performance of Commercial State Corporations in Kenya

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Abstract

The commercial state corporations in Kenya have faced a turbulent period that has seen previous blue-chip companies such as Mumias Sugar, Kenya Airways, Telkom Kenya, and National Bank falter in terms of their performance. Despite the restructuring of state parastatals and the continuous government bailout, there has been little improvement in the performance of state-owned corporations. The available literature has focussed on their performance from multidimensional constructs. However, there is scanty evidence on how organization capabilities affect the performance of commercial state corporations. The current study sought to establish the effect of innovative capabilities and resource capabilities. The research was anchored on the dynamic capabilities' theory and the theory of the firm. The research employed a descriptive cross-sectional research design with the unit of analysis being the 50 commercial state corporations in Kenya. The study used a census survey of 150 respondents. Data was collected by the use of semi-structured questionnaires, employing a mix of drop and pick methods as well as google forms to collect the data. The collected research data were analyzed using descriptive, inferential statistics, and correlational statistics. The results were presented using charts and tables. Findings revealed the research was able to obtain a 71% response rate, with 29% of the sample respondents not being able to respond. Correlation tests established there is a positive association between innovative capabilities, resource capabilities and performance of commercial state corporations. The study established that there is a positive and significant effect of organization capabilities on state corporations' performance in Kenya. Specifically, the study revealed that innovative capabilities, resource capabilities, have a positive and statistically significant influence on the performance of commercial state corporations. The study recommended that organizations would also institute compensations and rewards to encourage innovative ideas from employees in different departments. The study recommended that the management ensures that they have adequate qualified personnel to improve strategy execution within their respective firms. The study also recommends that coordination functions be centralized to ensure timely detection of unexpected events.

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Introduction

Tiantian and Yezhuang (2015) pinion that through identification and implementation of strategies centered on improving the level of efficiency and effectiveness led to better performance among organizations. They argue that it is necessary that organizations explore more than the need to generate profitability and that they should increase diversification so as to meet the individual and heterogeneous demands of their suppliers, stakeholders, and customers. An increase in globalization has led to an increase in interactions between firms, customers, and other non-financially invested stakeholders (Yadav & Varadarajan, 2005; Ramani & Kumar, 2008). Organization capabilities involve planning, coordinating, resource allocation, and information management (Barbero, Casillas, & Feldman, 2011). Organizational capabilities are the organization's ability to convert assets and resources into capabilities that enable the firm to offer excellent services to clients and to regularly develop and deliver new innovative items (Mok, 2009). The strategic management of the workforce and capital resource assets of the firm forms the premise for organizational capability and competitive advantage for the firm (Astrachan, 2010). Organizational capabilities are typically seen as operational, specialized capabilities organized into individual aptitudes or particular various leveled capacities (Ortega, 2010). Capacities include individual employee abilities, resource capabilities, and implied gathered knowledge that are installed in a firm's schedules, administrative procedures, advertising correspondences, and culture (Minna, Sanna, & Juhani, 2014). Organizational capability encourages the development and distribution of a wide scope of items, special promotion of the firm's items, fast and timely delivery of products, production of quality and of value and superior items, and consistency in quality and distribution speed (Spriggs, 2012). Employment of organizational capabilities effectively leads to organizational performance (Rabah, 2015)). According to Dubihlela (2013), strategic organizational capabilities help to build up capabilities the firm may use to differentiate itself in the market in order to achieve customer satisfaction (Dubihlela, 2013). They are very important, particularly in the dynamic business environment with volatile markets and environmental uncertainties. The organization's ability to develop and design new organizational capabilities to counter and control the dynamic business environment forms the basis for sustainable competitive advantage for firms (Srivastava, Franklin, & Martinette, 2013). Innovative capability is a multidimensional construct and must remain a continuous process in firms. Previous research suggests that innovation in firms is influenced by the features of the firm and leadership within the firm, attributes of the innovation, and environmental or external factors (Damanpour & Aravind, 2012). An organization's capability to innovate is important in facilitating an innovative culture characterized by internal promoting activities and in facilitating organizational members to understand and respond appropriately to the external market environment. Innovation capacity extends the need for firms to acquire and utilize existing and emerging technologies to develop better products and update existing products to meet the broader needs of the market (Minna, Sanna, & Juhani, 2014). Tajeddini (2016), in their examination of public organizations, indicates that innovativeness was key to improving the performance of the corporations. The resource-based view theory holds that although firms may operate in the same environment while facing similar risks and opportunities, among the factors determining their level of success is the quality and quantity of the resources and capabilities that they possess (Barney J. , 2005). They are among the most valuable sources of competitive advantage for more organizations (Newbert, 2007). Organizations are supposed to be able to learn resource combinations in order to advance their core competencies (Ramachandran, 2011). Research highlights the need for firms to acquire, develop, maintain and explore a variety of resources with the aim of converting them into capabilities that can be utilized to improve the firm's competitive positioning (Pavlou & El Sawy, 2011). Barbero, Casillas, and Feldman (2011) found out that having adequate human resources and a skilled labor force was key to firm performance. In Kenya, state-owned commercial enterprises are established to accomplish specific goals. They function to increase operational autonomy, flexibility, generation of value for money, and improvement of transparency and accountability, targets that are usually difficult for the national government to attain due to bureaucracy and rigid form of leadership (Githinji & Gachunga, 2017). They are different from government ministries and their associated departments in that they operate independently by virtue of their amalgamation, financial goals, and their level of accountability (Government of Kenya., 2013). Performing organizations are the bedrock of a country's economic growth; hence Kenya's state-owned commercial enterprises are essential in indigenizing the economy, increasing the rate of economic development, improving the state's capabilities in terms of service delivery, creating employment opportunities, and building of international partnerships. It is, however, important to note that since their formation, some of these firms have struggled to remain competitive and have burdened the government with debts leading to missed opportunities for development (Miringu & Muoria, 2011). Subramanian (2015) examines the performance among Indian state corporations with findings affirming that listed state firms have been able to leverage their ownership structures to enhance efficiency, accountability, and decision-making within the country. Mbo (2017) examined the drivers of organizational performance of state-owned firms in Sub-saharan Africa and noted that technical efficiency, conducive environment, stakeholder interactions, resource availability, and governance had significant positive effects on state-owned firms' performance. Odindi, Magutu, and Nyaoga (2018) studied productivity among Kenyan state-owned corporations, with results indicating that unethical practices such as fraud, collusion, corruption, and manipulation limited firm productivity. It was also evident that a lack of accountability and transparency reduces firm performance.

Statement of the Problem

The overall productivity of Kenyan state-owned commercial corporations has been below par over the years. This has been regardless of the billions of shillings allocated each year to enterprises owned by the government (Njiru E. , 2010). Most recently, despite the continuous bailout of state corporations like Kenya Airways, Telkom Kenya, and Mumias sugar company, there is scant evidence to support that the institutions are emerging from their loss-making streak in the short run (Ochieng, 2015). The major cause of this poor performance within state agencies has been blamed on the wastefulness of management, political interference, corruption, and low-quality service/product offering. In relation to state-owned corporations, privately owned firms have been minting billions in turnover every year, indicating there is high efficiency within these companies (Gitundu, Kisaka, Kiprop, & Kibet, 2016). Despite this there is little has been done focusing on how the link between organization capabilities and their influence on productivity among Kenyan state corporations; this study examined this relationship with the aim of filling this knowledge gap. Mbo and Adjasi (2013) examined the performance of commercial state corporations and found that strong boards, the presence of independent industry regulation, good liquidity position, and characteristics of the firm are among the factors affecting their performance. Nyangi, Wanjere, and Egessa (2015) examined sugar companies and indicated that organization capability was positively linked to firm performance. None of the above studies focused on commercial state corporations, thus creating an empirical gap that this research sought to solve. The current study sought to establish how organization capabilities affect organization performance among Kenyan commercial state corporations.

This study aimed to establish how organization capabilities affect performance among commercial state corporations. Specifically, the research sought to determine the effect of innovative capabilities on the performance of Kenyan commercial state corporations. Secondly, the study focused on determining the effect of resource capabilities on the performance of Kenyan commercial state corporations

Theoretical Literature

The dynamic capabilities theory was advanced by Teece, Pisano, and Shuen (1997 who define it as the firm's ability to integrate, build and reconfigure internal and external competencies appropriately to enable the company to adapt to the changes occurring within the environment in which it operates. These capabilities are an indication of the innovative capability of an organization showing its ability to seamlessly implement innovative technologies, which are critical in ensuring that the company develops and sustains a competitive advantage in rapidly changing markets. It shows the management team's ability to identify and exploit critical opportunities, thus enabling it to appropriately respond to market demands (Teece, Pisano, & Shuen, 2007). Ambrosini, Bowman, and Collier (2009) note that dynamic capabilities are composed of reconfiguring, transforming, and recombining resources resulting in an increased ability of the firm to realize its goals. Eisenhardt and Martin (2000) are of the opinion that what determines the impact of resources acquired by the firms is the manner in which the resources are acquired and deployed to match the environment within which the organization operates, showing that it is necessary for the organization to have visionary leadership which is able to exploit available resources to attain their goals. The dynamic capabilities theory was ideal in this study in highlighting how managerial capabilities help in the reconfiguration of firm processes. Furthermore, the theory was essential in the understanding of how innovative capabilities can be harnessed toward enhancing the coordination and innovative aspects within the organization.

Empirical Literature

Tajeddini (2016) analyzed how innovative levels and learning orientations influence productivity among public organizations in Iran. Carrying out survey-based research on 127 managers drawn from major cluster companies in Iran, findings indicated that learning orientation and innovation are key predictors of performance among public firms. Further, innovativeness improves the speed, reduces the cost incurred, and increases the level of confidence of consumers in the capacity of state corporations. The research was based in Iran and not in Kenya. Rajapathirana and Hui (2018) assessed how innovation capability and type influence performance among Sri Lankan insurance firms. Adopting an explanatory research design that focussed on 379 senior managers, findings indicated that effective management of the firm's innovation capability positively contributes to better firm performance. The study also indicates that innovation efforts and types of innovation moderate affect productivity. The research did not focus on state commercial corporations but on privately-owned insurance firms. Shisia, Sang, Matoke, and Omwario (2014) sought to determine how strategic innovation impacts productivity in public universities in Kenya. Adopting a descriptive research design that focussed on the public universities, structured questionnaires were the main data collection tools. Findings indicated that strategic innovation positively influences performance among Kenyan public universities. The study showed that research and knowledge creation, product innovation, process, marketing, and organization innovation were key to sustained performance. The study focussed on public universities. Chege, Wang, and Suntu (2020) focused on the impact of information technology innovation on firm performance in Kenya. The study focussed on 240 enterprises drawn across the country and adopted structural equation modeling in the analysis. The result suggested that technology innovation capacity was positively related to greater performance within the enterprises. The study showed managing technological externalities, improving ICT resources availability and innovative strategies are key to better performance. The study was limited to enterprises, while the current survey examined the performance of commercial state corporations and incorporated more organization capability dimensions. Ngah, Tai, and Bontis (2016) studied how knowledge management capabilities influence the organizational performance of the Dubai roads and transport authority. A survey research design that focussed on 255 managers composing executives, senior managers and directors at the authority was carried out. Correlation and regression analyses were applied to the data, and conclusions indicated that knowledge management capabilities positively and significantly influence the performance of the firm. The study focused on a Dubai state authority and not on Kenyan state corporations. Mwamuye (2017) examined selected determinants of strategy implementation and their influence on Kenyan parastatals' outcomes in the energy industry. Descriptive research was adopted to assess the population, which consisted of seven state parastatals. Qualitative and quantitative data analysis techniques indicated that the availability of adequate personnel, resources, and coordination ability of firm activities was key in determining the performance of the organizations. Further, the researcher determined that effective utilization of available resources is also a key indicator of the performance of the firm. Commercial corporations were not assessed in this study. Linyiru and Ketyenya (2017) studied the influence of organizational factors on the performance of Kenyan state corporations. An explanatory research design that focused on 55 state commercial corporations was adopted, and primary sources of data were utilized. Findings ascertained that organization factors are a key determinant of the firm performance of state commercial corporations. The research indicates that adequate lobbying for government funding, a competent workforce, and efficient resource utilization are key to fostering performance. The study, however, did not focus on how firm capabilities influence the organizational performance of state commercial corporations. Mwai, Namada, and Katuse (2018) examined how organizational resources influence the effectiveness of different organizations. A descriptive research design was used in the collection of primary data. Correlation and inferential analysis methods were applied to the data. Staff capacity, financial resources, and operational efficiency were all positive predictors of organizational effectiveness. The study was, however, limited to non-governmental organizations, while the current research examined commercial state corporations.

Research Methodology

The study employed a descriptive cross-sectional design, and data were collected with the use of a comprehensive questionnaire. This design was appropriate due to its ability to provide details on the relationship between the firm capabilities and organizational performance, according to the existing theories, to create a better comprehension of the research topic. This study targeted 150 individuals who work for the top management of 50 corporations that are owned by the Kenyan government as of 31st December 2018 (Government of Kenya., 2013). The respondents in each of the organizations comprise three members of top management that are; the human resources manager, the information technology manager, and the finance manager. The study selected the participants as senior personnel within the corporations. They are expected to have an awareness of the various organization capabilities and the performance of the corporations. Simple random sampling ascertained that each member of top management had the same chance of being chosen, consequently ensuring that the results obtained were well represented and unbiased. The sample size for the study was a census of the 150 personnel members. Primary data was collected using semi-structured questionnaires. Questionnaires were preferred as a method of data collection due to their ability to cover wide geographical area, which was necessary when accessing the major corporations in the country. Descriptive and inferential techniques were key when analyzing the quantitative data collected. This was carried out with the use of the Statistical Packages for Social Sciences (SPSS

Version 23) software. The data was presented in the form of percentages, frequencies, means, and standard deviations. Inferential statistics were conducted using multiple regression analysis and correlation analysis to determine the extent to which the constructs are related. After analyzing the data, it was presented as charts and tables, and other forms of infographics.

Results and Discussions

Response Rate

The research survey adopted a census of the 150 personnel drawn from the 50 state-owned commercial enterprises in Kenya. The study made use of physical questionnaires and googled forms in the data collection process. Findings revealed the research was able to obtain a 71 percent response rate (n=105), with 29 percent (n=45) of the sample respondents not being able to respond. The study was conducted between September and October 2021, when partial lockdowns had been instituted in state parastatals, thus impacting the overall response rate. Further, the response rate was in accordance with Cooper and Schindler (2012), who posit that a representation of above 60 percent is reliable for quantitative surveys.

Background Information

Table 1 Background Information

Characteristics	Grouping	Frequency	Percentage
Age of the respondents	36-45 years	29	27
	46-55 years	76	72
	56 and above	1	1
	Total	106	100
Gender of employees	Male	61	58
	Female	45	42
	Total	106	100
Education of the respondents	Graduate degree	68	65
	Postgraduate	33	31
	Postgraduate diploma	5	4
	Total	106	100
Length of service	Less than 3 years	18	17.1
	3-5 years	35	33.3
	6-9 years	49	46.7
	Over 9 years	3	2.9
	Total	106	100

The analysis established that the majority of the respondents, 71 percent (n=75), were between the age of 46-55 years, while only 1 percent (n=1) of the respondents was above 56 years of age. The findings demonstrated that there was no youth representation within the senior positions in the commercial state corporations in Kenya. The findings of the study revealed that the majority of the participants, 56 percent (n=59), were male staffers within the commercial enterprises, with women only accounting for 44 percent (n=46). The results reveal there is increasing gender balance in the senior positions within commercial state corporations, which is vital to gender equality in public sector jobs. The research explored the education of the participants, and the analysis showed that the majority, 65 percent (n=68), had a graduate degree, 31 percent (n= 33) had a postgraduate degree, with only 4 percent having a postgraduate diploma. The results revealed there is a high professional qualification among the senior managers within commercial corporations. The results indicate that most of the respondents, 47 percent (n=49), have worked for 6-9 years, 33 percent (n=35) have worked for 3-5 years, with only 3 percent (n=3) having worked for over nine years. The findings establish that the participants who took part in the study have varying experiences, which can expose them to reliable information and knowledge that is key to answering the research questions.

Performance of Commercial State Corporations

The dependent variable for the study examined the performance of the state corporations in Kenya. The study sought to examine the extent to which respondents rated the following statements using the following scale; *5= very large extent 4= large extent 3= moderate extent 2= small extent 1= not at all*

Table 2 Performance of Commercial State Corporations

Statement	N	Min	Max	Mean	Std. Deviation
The organization is able to attain high customer satisfaction in service provision	106	1.00	5.00	3.2453	1.16954
The organization is able to achieve increased employee productivity	106	1.00	5.00	3.6792	1.20749
The organization has been able to attain better social performance in service provision	106	1.00	5.00	2.2264	1.14877
There is increased efficiency and effectiveness within the organization	106	1.00	5.00	3.4906	1.37491
The organization has been able to enhance its competitive position within the firm	106	1.00	5.00	3.4528	1.18025
There is improved service quality within the organization	106	1.00	5.00	3.5094	1.31833
Aggregate				**3.267**	**1.233**

Source: Researcher Data (2022)

The findings showed that respondents agreed the organization is able to achieve increased employee productivity, as revealed by a mean of 3.679 with a high variation of 1.207. The results noted agreement that there is improved service quality within the organization as noted by a mean of 3.509 and a high deviation of 1.318. Findings indicate disagreement among respondents that there is increased efficiency and effectiveness within the organization, as indicated by a mean of 3.491. Respondents also strongly disagreed that the organization has been able to attain better social performance in service provision, as noted by a mean of 2.226 and a deviation of 1.149.

Correlation Results

The study sought to determine the correlation between the study variables and applied correlation analysis. The study employed the test at a 95% confidence level, and the findings are shown in Table 3.

The results showed a positive and statistically significant correlation between innovation capabilities (r = .666, sig = .000<.05) and the performance of state corporations in Kenya. The findings are similar to Mohamed et al. (2019), who concluded that innovation positively enhanced the performance within public sector organizations. Tajeddini (2016) revealed that innovation and creativeness were central to improving productivity within public sector firms. The study by Rajapathirana and Hui (2018) also determined that effective management of the firm's innovation capability positively contributes to better firm performance.

Table 3 Correlation Analysis

		Performance	Innovation Capabilities	Resource Capabilities
Performance	Pearson Correlation	1		
	Sig. (1-tailed)			
	N	106		
Innovation Capabilities	Pearson Correlation	.666**	1	
	Sig. (1-tailed)	.000		
	N	106	106	
	Sig. (1-tailed)	.000	.000	
	N	106	106	
Resource Capabilities	Pearson Correlation	.696**	.570**	1
	Sig. (1-tailed)	.000	.000	
	N	106	106	106
	Sig. (1-tailed)	.000	.000	.000
	N	106	106	106

**. Correlation is significant at the 0.01 level (1-tailed).
*. Correlation is significant at the 0.05 level (1-tailed).
Source: Researcher Data (2022)

The results showed a positive and statistically significant correlation between resource capabilities (r = .696, sig = .000<.05) and the performance of state corporations in Kenya. Ngah, Tai, and Bontis (2016) contend that resource capabilities are critical to the attainment of better outcomes within firms as they allow organizations to expand their competitiveness. The analysis revealed a weak positive correlation between managerial capabilities (r = .392, sig = .000<.05) and performance. Vanhala and Stavrou (2013) showed that managerial practices and involvement of employees positively led to better performance within the organizations. Osei-Bonsu, (2017) study showed that managerial capabilities were key to strengthening the operational and financial performance of firms.

Regression Results

The study applied a multiple linear regression to determine the influence of organizational capabilities on the performance of commercial state corporations. The results of the multiple linear regression are shown in Table 4.

Table 4 Regression Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.770[a]	.592	.584	3.41592

a. Predictors: (Constant), Resource Capabilities, Innovation Capabilities

The regression results revealed a coefficient of determination (R-sq = .592). The findings signified that 59.2 percent of the performance of the commercial state corporations is jointly determined by the organizational capabilities examined in the study.

Table 5 ANOVA Summary

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1745.501	2	872.751	74.795	.000[b]
	Residual	1201.857	103	11.669		
	Total	2947.358	105			

a. Dependent Variable: Performance
b. Predictors: (Constant), Resource Capabilities, Innovation Capabilities

The findings of the ANOVA test showed an F-value = 74.795, Sig = .000<.05, which implied there is a positive and significant relationship between organization capabilities and the performance of commercial state corporations.

Table 6 Regression Coefficients

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	4.751	1.276		3.724	.000
	Innovation Capabilities	.398	.076	.399	5.213	.000
	Resource Capabilities	.367	.060	.469	6.124	.000

a. Dependent Variable: Performance

From table 6 above, the regression coefficient for innovative capabilities was 0.398 with a p-value of 0.000<0.05. This means that innovative capabilities have a positive and statistically significant effect on the performance of commercial state corporations in Kenya. These findings imply that a unit increase in innovative capability will lead to a 0.398 increase in the performance of commercial state corporations. Consistent with these results, Ngando (2017) found out that service and process innovation was vital to better performance within organizations. Shisia, Sang, Matoke, and Omwario (2014 concluded that improving production processes and marketing innovation significantly enhanced organization productivity. Table 6 further shows that the regression coefficient for resource capabilities was 0.367 with a p-value of 0.000<0.05. This means that resource capabilities have a positive and statistically significant effect on the performance of commercial state corporations in Kenya. These findings imply that a unit increase in resource capabilities will lead to a 0.367increase in the performance of commercial state corporations. The analysis is in line with Mwamuye (2017), who revealed that the resource capabilities of the firm were key in determining the performance of state parastatals. Linyiru and Ketyenya (2017) noted that improving the workforce and fostering resource utilization helped to drive positive improvement in the organizational performance of state commercial corporations. Mwai, Namada, and Katuse (2018) concluded that staff capacity and financial resources positively improved organizational effectiveness.

Conclusions

The study concluded there is a positive and significant effect of organization capabilities on state corporations' performance in Kenya. Innovation capabilities were reported to strongly influence the performance of state corporations. This implies that improving research and development and promoting an innovative culture through instituting incentives could improve the organizations' innovative performance and technologies' adoption and integration. Regarding the first objective, which reviewed innovative capabilities, participants demonstrated that the firms had improved the adoption of new technologies. However, there was a high variation in the responses, signifying a lack of uniformity in technology adoption. There was also enough evidence to suggest that the firms had failed to adopt and encourage research and development. The respondents also indicated that the firms had failed to improve learning which impacted their growth opportunities. From the review, innovative capabilities have a significant impact on firms' competitiveness, effectiveness, and growth. Regarding resource capabilities, the study also confirmed a positive impact on overall performance. The study reported that management played an important role in sourcing and allocating resources, thereby establishing that resource capabilities can be complemented by coordination capabilities. Efficient utilization of resources was associated with reduced production and marketing distribution costs which improved the firms' profitability. The analysis determined that there exists a positive and statistically significant effect of resource capabilities on the firms' performance. The respondents were in agreement that their organizations allocate adequate resources to ensure that the organizations can attain their main objectives. However, respondents assert that there was less efficiency in the acquisition and utilization of infrastructural facilities within the organizations, which impacts the firm's efficiency. Further, the respondents were doubtful about the management's ability to adequately control and manage allocated funds in a sustainable manner.

Recommendations

From the analysis, innovative capabilities significantly impact the organizational performance of commercial state-owned enterprises. Based on this, the management should adopt practices that would improve innovation within the firms. This can be accomplished by adopting a culture of innovation, starting with the establishment of well-financed and equipped research and development teams whose main work would be to find new ways of carrying out operations and new technologies that would improve employee performance. The organizations would also institute compensation programs to encourage innovative ideas from employees in different departments. The analysis also revealed that resource capabilities had a significant and positive impact on the performance of state corporations. The study recommends that the management ensure that they have adequate qualified personnel to improve strategy execution within their respective firms. The study also recommends that managers and CEOs leverage their competencies to lobby for secure sources of financing to ensure that the firms can acquire the necessary material and financial resources to realize their main goals. The managements were also recommended to improve their learning capacity through training and involvement of employees in decision making since employees have different perspectives and experiences that could be valuable to organization plans.

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