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The Moderating Effect of Operating Environment on Corporate Governance and Firm Performance: Case of Corporate Entities Listed At Nairobi Securities Exchange

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Abstract: *Firm decisions are majorly affected by the operating environment (OE) in which they exist. Environmental context represents an exterior ecosystem. Effect of external environment context on strategic management is a discussion that is ever ongoing. within which the organizational decisions and strategy are integrated. Organizations mustblend with their environment in order to remain relevant, thus the necessity to clearly identify and define the components and dimensions of the environment. Operating environment either pose a threat or offer opportunities necessary to steer organization performance. The key result suggest that operating environment affect the relationship between corporate governance and firm successes amongst companies listed at Nairobi Securities Exchange (NSE).*

Key words:*Operating Environment, Corporate Governance, Firm Performance, Nairobi Securities Exchange.*

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Introduction

Corporate governance (CG)can be explained as powerwhich is exercised over companies (Tricker, 2015). It is made up of the activities of the corporation'spanel of directors and its associations with investors, administrators and validshareholders. The association between companycontrol and goal attainment is one appealing and non-agreeable issues that has received much attention around the world. The global crisis that happened in 2007raised major concerns around the policy and practices of many economies in the world(Tricker, 2015; Nguyen and Nguyen, 2016). Thequestion that has remained unsewered is whether improving business controls is of any benefit in line with the much advocated view that good internal mechanisms and the scanning of environment can improve business performance is an issue that still debatable (Nguyen & Nguyen, 2016). Good CG has a positive impact on business performance, while weak corporate governance undermines investor assurance and external investments (Vo & Nguyen, 2014).There is an increasing evidence and prominence in literature to link corporate governance and performance among the organizations across the world (Wakaisuka,2017). CG enables organizations to solely focus and identify governance mechanisms that are efficient to enable them to achieve the aligned interests existing between the management and ownership of the firm effectively which in turn results to improved performance (Eisenhardt, 1989).

The operating Environment (OE) embodies the major eventualities encountered by a company (Tosi and Slocum, 1984). A vast body of study has been gathered that explores the influences of the operating environment on the approaches, processes, structures and results of the organization. Given the substantialvariances in environmental possessions from business to business and from corporate to corporatesuccess will also vary from one environment to another. This survey is grounded on agency theory, and supported by environmental dependency theory, it specifically explores the relationship between corporate governance in particular looking atmultiple directorship, the size of the board of directors, audit committees and duality of CEOs, and secondly, the composition of the operational, political, economic, social, technological, ecological and legal environment on the corporate attainment of their set objectives and goals.

Materials

The consequence of the operationalsetting on business performance has been deliberated by various researchers over the years in developed and developing countries (Naushad &Malik, 2015, Carpenter & Westphal, 2011, Ingley& van der Walt, 2011, Klein, 2014). There has been no agreement on the results of these studies, with valiant results: some show a positive relationship between corporate governance and firm performance some show a negative relationship while others show no relationship. Wakaisuka (2017) investigated whether regulation can be effectively used to replace internal control mechanisms and control conflicts amongagencies in a company. The study found that, overall, the effect non-management directors is reversely related to ownership of insider shares while it is not influenced by the duality of CEOs. The duality amongCEO and President is however less expected when the ownership of initiated shares increases. The study also revealed that inside control devices are less significantly related with controlled companies.

According to Liang, You and Liu (2010), business performance is explained by the value of IT capabilities within the business, and therefore organizations can leverage onIt and other related innovations to increase competitiveness of the company. Their study found that technological possessions increase external capabilities, which substantially impact on business performance. The results were consistent with opposingphilosophies of organizational choice-making and evidence sharing regarding information technology governance processes and environmental dynamism. It was concluded that, the level of environmental dynamism, complexity and munificence if studied carefully can give companies a superior advantage and thus offer improved performances in their sector of activity (Peterson et al., 2002).

Wanjiru, Muathe and Kinyua (2019)contented that exogenous affects the correlationamongcompanytactics and business accomplishment. Furthermore, Kacperczyk (2009) reported that firms pursuing international diversification tended to have CEOs with backgrounds in marketing and production.Heargued further that, firms that pursuediversification were more expected to have CEOs with backgrounds in finance and accounting. Different chief executives may display variations in terms of their demographic characteristics. These variations are explained in terms of age, gender, education, culture,experience, and other personal attributes which affects firm performance.This has bearing on governance such that while recruiting managers of an organization, It is the sole responsibility of board of directors to make sure that they recruit the right managers to govern their institutions on their behalf. Akgul, Gozlu and Tatoglu (2015) in their research involving 211 companies that listed at Turkey's most industrialcompaniesrevealed that environmental dynamism is undoubtedlybesidesmeaningfully related to environmental dynamism and, operational strategy is also found to have a strong and effect on financial success.

Altunoglu (2012), in a study focusing on emerging markets corporate culture, firm size and governance practices, established that there arerelationships among organizational designs andcorporate governance applications. Further the success of corporate governance depends on the conditions under which it is employed. Machuki (2011) observed that the settingis a source of rarepossessions ofdesperately needed by rivals of firms therefore cannot be ignored. When the environment becomes hostile, as it sometimes does, the resources get scarce, a situation that forces businesses to manage in a state of ambiguity which often ends in inadequateachievement.

Methods

The survey was grounded on a positivist philosophy approach. The main reason the study adopted the positivist philosophy was founded on the argument that the resolve of the survey was to empirically and objectively analyze the relationships among the variables and the hypothesis was taken from theories and Sectional descriptive survey plan was adopted.

According to Sekaran and Bouge (2009), a description describes the features of the variables of interest in a situation. The aimed to collect data from all 66 companies listed on the NSE. The survey collected primary and secondary data. Descriptive statistics and regressing model were used to analyses the data. . The P value, the F ratio and the t statistic explain the importance of constructing the model at a 95% confidence level.

Results

The study examined the impact of the OE on the link toCG and achievement of organizations listen on the NSE. The research was led by the hypothesis that the correlationamongbusinesstarget attainment and the success of companies listed on the NSE is not significantly moderated by the environment. The results are presented in Tables 1 and 2 below:

Table 1: Effect of operating Environment on the Relationship BetweenCG and Financial Performance

Model Summary

					Change Statistics	
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change
1	.652[a]	.426	.414	.551	.426	35.574
2	.680[b]	.462	.439	.553	.025	.756
3	.694[c]	.482	.448	.555	.009	.626

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.810	1	10.810	35.574	.000[b]
	Residual	14.586	48	.304		
	Total	25.396	49			
2	Regression	11.741	2	5.871	20.206	.000[c]
	Residual	13.655	47	.291		
	Total	25.396	49			
3	Regression	12.234	3	4.078	14.252	.000[d]
	Residual	13.162	46	.286		
	Total	25.396	49			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.983	.356		2.761	.008
	Corporate Governance	.663	.111	.652	5.964	.000
2	(Constant)	.629	.541		1.163	.251
	Corporate Governance	.632	.117	.622	5.404	.000
	Operating Environment	.226	.102	.100	2.204	.009
3	(Constant)	2.159	2.009		1.075	.288
	Corporate Governance	.152	.619	.149	.245	.807
	Operating Environment	-.304	.122	-.242	-2.486	.591
	Interaction term	.267	.117	.237	2.274	.003

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Corporate Governance, Operating Environment

c. Predictors: (Constant), Corporate Governance, Operating Environment, interaction term

The study revealed a moderate positive (r = 0.652) relationship between CG and financial performance. CG significantly influences financial performance (β= 0.663, t= 5.964, P-value = 0.000<.05). Both corporate successes and operating environment explained 46.2 percent of the difference in financial performance. Corporate governance (β= 0.632, t= 5.404, P-value = 0.000<.05) and operating environment (β= 0.226, t=2.204, P-value = 0.009<.05) individually significantly influence financial performance. Interaction term (β= 0.267, t=2.274, P-value = 0.003<.05) is significant hence moderation has taken effect.

Table 2: Result of Operating Environment and the Relationship Between CG and Non-Financial Performance

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
1	.706[a]	.498	.488	.560	.498	47.619	1	48	.000
2	.730[b]	.533	.509	.561	.021	.806	1	47	.374
3	.735[c]	.540	.510	.567	.001	.019	1	46	.891

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.910	1	14.910	47.619	.000[b]
	Residual	15.029	48	.313		
	Total	29.939	49			

2	Regression	15.963	2	7.982	26.841	.000[c]
	Residual	13.976	47	.297		
	Total	29.939	49			
3	Regression	16.169	3	5.389	18.005	.000[d]
	Residual	13.770	46	.299		
	Total	29.939	49			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.934	.361		2.585	.013	.208	1.661
	Corporate Governance	.779	.113	.706	6.901	.000	.552	1.006
2	(Constant)	.564	.549		1.027	.310	-.541	1.668
	Corporate Governance	.747	.119	.676	6.288	.000	.508	.985
	Operating Environment	.342	.164	.097	2.085	.002	.047	.637
3	(Constant)	.292	2.051		.143	.887	-3.836	4.421
	Corporate Governance	.832	.632	.754	1.317	.195	-.440	2.103
	Operating Environment	.208	.574	.152	.362	.719	-.947	1.363
	Interaction term	.147	.065	.119	2.262	.002	.777	.841

a. Predictors: (Constant), Corporate Governance

b. Predictors: (Constant), Corporate Governance, Operating Environment

c. Predictors: (Constant), Corporate Governance, Operating Environment, interaction term

The study revealed a strong positive (r = 0.706) relationship betweenCG and non-financial performance. CG significantly influences non-financial performance (β= 0.779, t= 6.901, P-value = 0.000<.05). Both corporate governance and operating environment accounted for 533.3 percent of the variation in non-financial performance. Corporate governance (β= 0.747, t= 6.288, P-value = 0.000<.05) and operating environment(β= 0.342, t= 2.08, P-value = 0.002<.05) individually significantly influence financial performance. Interaction term (β= 0.147, t= 2.262, P-value = 0.002<.05) is significant hence moderation has taken effect.

Conclusion

It is clear from the results that operating environmentsignificantly impact on the relationship between corporate governance and financial performance for companies listed a Nairobi Securities Exchange as well as the relationship among corporate governance and non-financial performance of corporate entities. Business bodies needs to perform thorough s scanning in order to achieve their performance targets. It is further concluded that entities which wish to remain competitive cannot afford to ignore the dynamics of the environment in which they operate.

Implication of the study

From the foregoing results, this study has supported the agency theory and environment dependency theory. Shareholders and managers are therefore expected to have full understanding of their operating environment and create a partnership working relationship for a win-win scenario. In addition, this study reinforces the earlier findings in this area and supports the philosophy that professionally managed firms that scans their operating environment critically tends to posit superior performance compared to their competitors.

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