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The Moderating Role of the Legal Environment on the Relationship between TMT Characteristics and Organizational Performance in a Regulatory Setting in Kenya

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Abstract

The legal environments of regulatory agencies are key predictors of their organizational performance as they influence how the regulatory agencies are created, their mandates, sources of funding and reporting frameworks. Reporting frameworks include the nature of the relationships between the regulatory agencies and the policy makers, political actors, the legislature, the executive, judicial processes, regulated entities and the public. The specific objective of the study was to establish the moderating effect of the legal environment on the relationship between top management team characteristics and organizational performance of the independent regulatory agencies in Kenya. To achieve this objective, the study adopted descriptive cross-sectional research design. The target population of the study was all the twenty-three state regulatory agencies currently existing in Kenya. Due to the uniqueness of each independent regulatory agency and the distinct roles played by each top management team member in their organization, the study adopted a census survey of all the top management team members in all the twenty three state regulatory agencies in order to capture the required information. Primary data was gathered using structured questionnaire administered through drop and pick later method. Descriptive statistics was then used to summarize the survey data into percentages, frequencies, means and standard deviations. Whisman and McClelland model was used to test for the moderation. The findings of the study showed that legal environment has significant moderating effect on the relationship between top management team characteristics and performance of the independent regulatory agencies in Kenya The study recommends that the independent regulatory agencies should have stable funding mechanism so as not to rely on the parent ministries or exchequer support for them to be financially independent in executing their mandates. Lastly the study recommends for judicial system to recognize and support the work of the independent regulatory agencies in enforcement of the laws and regulations for their sectors or sub-sectors.

Keywords: Top Management Team Characteristics, Legal Environment, Independent Regulatory Agencies, Organizational Performance

1.0. Introduction

The external environment influences organizations as they make and execute strategic decisions aimed at propelling them to superior organizational performance regardless of the industry of their businesses (Hitt, Ireland, Sirmon & Trahms, 2011). According to Mkalama (2014), organizations today face external environments that are very dynamic and all the times filled with uncertainty. Several previous strategic management scholars have thus argued that to competently deal with the uncertainties presented by their external environments and to remain strategically focused so as to exhibit exemplary performance, organizations must always scan their external environments and fully understand the situations presented. Organizations must therefore build capabilities and core competences in order to counter the negative effects presented by their external environment while taking advantage of all the opportunities available (Njoroge, Ongeti, Kinuu & Kasomi, 2016). For the independent regulatory agencies, the legal environment gives them their mandates, defines their institutional structures and funding sources, and outlines their relationships to the sectors they regulate. The legal environment, therefore, sets the foundations for all their activities and beacons for evaluating their performance. It has been observed by previous strategic management scholars that the legal environments in all countries are becoming very volatile as governments try to enact legislations to match the ever changing expectations of their citizens and business landscapes due to globalization (Kikoyo, 2014).

The laws passed by governments and international laws adapted by a country for business operations form the legal environment of organizations in that country. The legal environment thus includes all the laws, regulations and government policies or directives that provide the relational systems between political power and any business. All countries or governments desire to regulate business activities within their borders. The legal environment therefore decides the limits for business operations. According to governments, the legal environment is meant to ensure a climate of political and legal stability, which should encourage desired businesses while discouraging the un-desired businesses and help in avoiding risks to either the citizens or the business entities (Voiculet, Belu, Parpandel & Rizea, 2010). The legal environments of regulatory agencies are mostly influenced by how the regulatory agencies are created, their mandates, sources of funding and reporting frameworks. Reporting frameworks include the nature of the relationships between the regulatory agencies' and the policy makers, political actors, the legislature, the executive, judicial processes, regulated entities and the public (OECD, 2013). Kikoyo (2014) conceptualized legal environment of regulatory agencies from three main dimensions namely; government policies for the sectors being regulated, laws in the country that form the regulatory agencies and the regulations that operationalizes the laws, and lastly the judicial systems in the country that deal with enforcement of laws. According to Christensen (2004), the greatest legal environmental challenge faced by regulatory agencies result from weak foundations of regulatory reforms and the intricate trade-off between political control and independence of the regulatory agencies.

Top management team characteristics refer to unique personal traits ascribed to members of the TMT that are either inborn or acquired, noticeable or perceptive. They are predictors of the worth of the TMT members in carrying out their tasks and managing their organizations (Mkalama, 2014). Previous scholars have grouped top management team characteristics into three categories namely, demographic characteristics, cognitive characteristics and psychological characteristics (Kasomi, 2015). Demographic characteristics are the observable or readily detectable features such as age, gender, education level, functional backgrounds and tenure. Psychological characteristics refer to subjective attributes such as personality traits and personal attitudes and beliefs such as self-esteem, self-efficacy, locus of control, emotional stability, task specific self-efficacy, optimism and resilience. Cognitive characteristics are associated with the ability of the TMT member to learn, remember, problem-solve and pay attention as they carry out their tasks (Kinuu, 2014).

Superior organizational performance is the most sought after outcome by all organizations be they public, private, national or multi-national, profit or non-profit organizations. However the definition of organizational performance remains to be a prickly subject among strategic management circles with various scholars and practitioners defining organizational performance differently (Kasomi, 2015). Javier (2002) while contributing to the subject, defined organizational performance in terms of economic, efficient and effective utilization of organizational resources in its activities. This is closer to what Daft (2000), suggested by postulating organizational

performance to be the capacity of the organization to realize its objectives and attain its goals through utilizing its assets in a proficient and appropriate way. Ricardo and Wade (2001), in their argument viewed organizational performance as the capability of an organization to maximize on its strengths while overcoming its weakness and to neutralize its threats while taking advantage of opportunities in order to achieve its objectives and goals.

Independent regulatory agencies in Kenya are a special category of state corporations with oversight role over their sectors or sub-sectors. They license operators, set prices where necessary, protect consumers, enforce compliance to licence conditions and market rules, enforce standards as well as codes of practice for the industry. They are meant to spur growth and improve services to consumers or end-users of the services in their particular industries. Currently there are twenty three (23) independent regulatory agencies in Kenya although there are plans to merge some of them so as to make them more efficient and effective. The management of the independent regulatory agencies in Kenya is bestowed on their board of directors and top management teams. Selection and identification of the top management teams with the requisite characteristics for each regulatory agency has been identified as an aspect that affects their performance (PTRP, 2013). Previous studies on performance of state corporations in Kenya have identified that some top management teams are deficient of appropriate talents that can enable implementation of suitable strategic management practices that could positively influence the performance of their organizations. Some of the top management teams have also been associated with failure of their organizations to align themselves to their ever changing and demanding business environments (Mkalama, 2014). The variation in the performance of the independent regulatory agencies have also been attributed to several other factors like; utilization of resources, poor identification of stakeholders and their needs, lack of sufficient resources, in appropriate organization structures and weak corporate governance structures (Ongeti, 2014).

2.0. Statement of the Problem

The Legal environment of state regulatory agencies are mostly influenced by how the regulatory agencies are created, their mandates, funding sources and institutional frameworks. The legal environment also defines the kind of association between the regulatory agencies and the various arms of government like the policy makers, the legislature, the executive and the judiciary as well as the regulated entities and the general public (OECD, 2013). Lack of clarity of roles, mandates and resources to the independent regulatory agencies are some of the factors that negatively affect their organizational performance (Stern, 2010). It has been argued that the institutional frameworks of the independent regulatory agencies have unclear or duplicate reporting lines that lead to ambiguity on the roles that the agencies ought to play in their various sectors or sub-sectors. On paper, the state regulatory agencies are meant to be independent and to have over sight roles over the regulated entities in their sectors or sub-sectors while the government ministries deal with policy. This has not been the case as the government still has strong control over the independent regulatory agencies as well as some of the regulated entities (GoK, 2013). This study therefore opted to investigate the moderating role of the legal environment on the relationship between TMT characteristics and performance in a regulatory setting in Kenya.

3.0. Literature Review

3.1. Theoretical Review

The advocates of open systems theory have argued that firms are influenced by what goes on in their external environments as they conduct their businesses. This is premised on the postulation of Ansoff & McDonell (1990) that organizations are environment serving and dependent. It is therefore necessary that organizations adapt or create a strategic fit with their environment if they are to sustain superior organizational performance (Njoroge, 2015). External environment has been considered by previous strategic management scholars to consist of interlinked sets of situations that play crucial roles in shaping the prospects, risks and limitations that organizations face and that impinge on their activities hence affecting their organizational performance. The external environment consists of situations originating beyond the organization's operating sphere and can be broadly categorized into legal, economic, political, social and technological forces. These factors are commonly designated as macro- environment (Pearce and Robinson, 2007). The other elements of the external environment are the situations influencing immediate operating sphere of the organization also denoted as micro-environment or industry forces. The micro-environment comprise of the labour markets, customers, suppliers, creditors, and trade

unions. They either encourage or limit the accomplishment of set organizational goals and impinge on the internal operations of the organization thus affecting its objectives and strategies (Gupta, 2009).

The legal environment influences organizations as they make and execute strategic decisions aimed at propelling them to superior organizational performance regardless of the industry in which the organizations operate in (Hitt, Ireland, Sirmon & Trahms, 2011). According Mkalama (2014), organizations today face external environments that are very dynamic and all the times filled with uncertainty. Organizations must always therefore fully comprehend the different situations presented by their external environment to competently deal with the uncertainties presented in order to remain strategically focused and to thrive. Organizations must hence build capabilities and core competences to assist them in countering the negative effects presented by their external environments while taking advantage of all the opportunities available (Njoroge, Ongeti, Kinuu & Kasomi, 2016). The study of the moderating role of the legal environment on the relationship between TMT characteristics and performance in a regulatory setting in Kenya was therefore anchored on the open systems theory.

3.2. Conceptual and Empirical Review

Previous strategic management researchers have argued that it is crucial for organizations to synchronize themselves to the changing environmental conditions in order to thrive. They have asserted that organizations must continuously scan their environments to identify opportunities to exploit and threats to mitigate against so that they gain or maintain sustained competitive advantage. Thus the structure and characteristics of the environments where organizations operate have been identified to be vital for their organizational performance (Kirkbesoglu, 2012). The legal environment has been argued to provide a model for organizational life as it constructs important roles for organizational actors and impacts positively or negatively to their operations by establishing norms that penetrates into the organizational life. Thus, organizations must conform to their legal environment for them to remain relevant and to be allowed to remain in business. The structures and processes of organizations are therefore shaped in such a way as to comply with the dictates of their legal environments (Kikoyo, 2014). Although the component of environment has been scrutinized ostentatiously in several studies on different spheres, studies on the relationships between organizations and their legal environments remain to be limited.

According to Wheelen and Hunger (2009), strategic management process in organizations can be divided into four inter linked phases namely, environmental scanning, strategy formulation, strategy execution, and strategy evaluation and control. Environmental scanning is meant to assist the organizations identify openings and risks that are likely to affect the organizations' activities negatively or positively in the short term and long term. The external environment of organizations has been conceptualized by previous strategic management researchers to include political, legal, economic, social and technological factors that impinge on operations of the organizations. These scholars have viewed external environment as a provider of resources and information that are vital for the survival of organizations (Marcus, 2011).

According to Nogal-Meger (2018), one aspect of the legal environment is the regulatory enforcement framework. The study operationalized regulatory enforcement framework in terms of how objectively and meritoriously regulations are instigated and administered. The researchers argued that regulations set legal and organizational structures within the particular industries being regulated by governments. They therefore asserted that the regulatory enforcement framework aspect of the legal environment sets how government regulations are effectively applied and their influence on the regulated entities and the economy in general.

The study further highlighted that regulatory proceedings must be promptly conducted to ensure there are no arbitrary delays and that due process must be followed in the regulatory proceedings. According to the researchers, the second aspect of the legal environment is the concept of the rule of law that protects against manifestations of arbitrariness and sets standards of accountability for the entities involve in applying the regulations. The focus of the current study therefore was to investigate the influence of the legal environment on organizational performance of state regulatory agencies in Kenya. This is because the legal environment of the independent regulatory agencies gives them their mandates, defines their institutional structures as well as their relationships with the sectors or sub-sectors they regulate.

The greatest legal environmental challenge faced by regulatory agencies result from weak foundations of regulatory reforms and the intricate trade-off between political control and independence of the regulatory agencies. The current study therefore conceptualized the legal environment in terms of sector policies, Acts of parliaments or presidential directives and sector or sub-sector regulations (Christensen, 2004). The study categorized TMT characteristics into three sub-variables namely, TMT demographics, TMT psychological and TMT cognitive characteristics. The study hence operationalized TMT demographic characteristics in terms of age, education, functional background, tenure (Carpenter, 2002) and gender representation (Dezso & Ross, 2012). Likewise the study operationalized TMT psychological characteristics in terms of self-esteem, general self-efficacy, optimism, emotional stability, task specific self-efficacy, resilience and locus of control (Kinuu, 2014). TMT cognitive characteristics was operationalized terms of problem solving, attention, memory and learning (Bouquet, Morrison & Birkinshaw, 2003). Lastly the study operationalized organizational performance in terms of effectiveness, efficiency, relevance and financial viability (Muraga (2015).

The study thus conceptualized a relationship as revealed by reviewed literature on the effect of legal environment on the relationship between TMT characteristics and organizational performance. In the conceptual model below, TMT characteristics is the independent variable while organizational performance of the independent regulatory agencies is the dependent variable, while the legal environment is the moderating variable. These relationships are captured in the schematic model in Figure 2.

Independent Variable   **Dependent Variable**

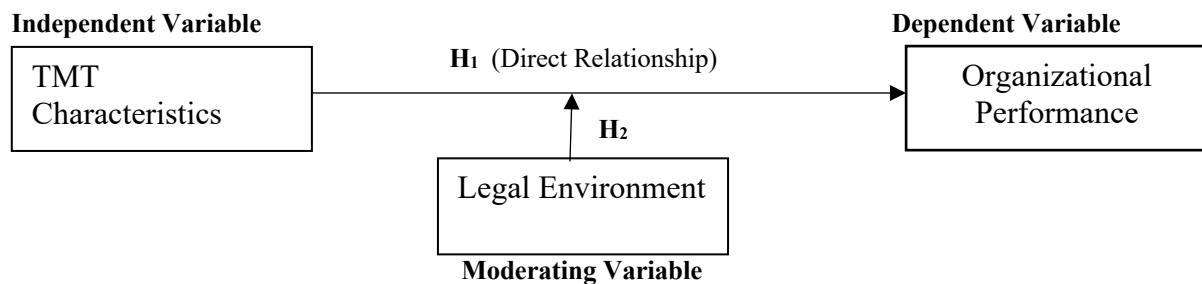| TMT Characteristics | H_1 (Direct Relationship) | Organizational Performance |

H_2

Legal Environment

Moderating Variable

Figure 2: Conceptual Framework

Based on the logic presented in the conceptual framework, the authors proposed that the legal environment would moderate the effect of TMT characteristics on organizational performance of the independent regulatory agencies in Kenya. Specifically, the study proposed that;
Hypothesis H_1: TMT characteristics has a significant effect on organizational performance.
Hypothesis H_2: The Legal environment has a significant moderation effect on the relationship between Top management team characteristics and organizational performance of the independent regulatory agencies in Kenya.

4.0. Research Methodology

The study adopted positivist research philosophy since it delved to look at what causes the particular relationships and what the effects of these relationship are. Positivism philosophy favours quantitative methods where considerable amount of data is gathered for analysis (Muchemi, 2013). Positivist philosophy was also considered appropriate for the study as the researchers were independent of the phenomena being investigated and the properties of the occurrences under study were objectively measured (Mugenda & Mugenda, 2003). The study used a cross-sectional survey design because cross-sectional surveys enable collection of data across a large number of organizations at one point in time for analysis. In a cross-sectional survey research design, the desired data for each variable in the study can be collected from the entire population or a section of it to help test the research hypotheses (Njoroge, 2015). Other researchers like Mkalama (2014), Muchemi (2013), Ongeti (2014) and Kasomi (2015) while trying to test hypotheses and draw conclusions in similar studies have also used cross-sectional survey design successfully.

The study context was the independent regulatory agencies in Kenya. According to the presidential task force on parastatal reforms (PTPR) of 2013, Kenya had a total of one hundred and seventy-eight (178) state corporations spread across eighteen (18) government ministries as at 30th June 2013, out of which twenty three (23) were the independent regulatory agencies (GoK, 2013). The unit of analysis for this study was the twenty three (23) state regulatory agencies while the unit of observation was two hundred and thirty two (232) TMTs spread across the twenty three (23) independent regulatory agencies in Kenya. The researchers used a census of all the 232 TMTs from all the state regulatory agency as each was considered to have unique information relating to how the characteristics of the TMTs affected performance of their independent regulatory agencies. Primary data was collected using a structured questionnaire comprising of closed ended questions. The questionnaire was developed in line with the objectives and hypotheses of the study and guided by the literature review as well as theories underpinning the various study variables. Data on the variables were measured using a five point Likert scale ranging from "not at all" (1) to (5) "to a very large extent." The positive responses were validated, edited for completeness and consistency upon receipt in order to prepare them for statistical analysis. Descriptive and inferential statistics were then used to analyze the prepared data. Diagnostic tests of normality, multi-collinearity and homoscedasticity were carried out on the study data. The results confirmed that there were no violation of the assumptions of linear regression analysis that could result in biased estimates, over or under confident estimates of the precision of regression coefficients and untrustworthy confidence levels and significance tests (Chatterjee & Hadi, 2012). The test for the moderation effect adopted the 2 steps approach postulated by Whisman and McClelland (2005).

Step 1: The influence of TMT characteristics on Organizational Performance
The first model in the moderation was deployed to investigate the combined effect of the TMT characteristics on organizational performance.

Organizational Performance = β_{10} + β_{11} TMT Characteristics + ε……..……………… 1

Step 2: Effect of TMT characteristics on Strategy Execution
The second step involved regression analysis of organizational performance on TMT characteristics, legal environment, and the interaction term between TMT characteristics and legal environment.

Organizational Performance = β_{70}+ β_{71} TMT Characteristics + β_{72} Legal Environment + β_{73} TMT Characteristics* Legal Environment + ε ...……………..……………….. 2

Where; β_{ii} = Beta coefficient
        ε = Error term

The inferential statistics included regression model summary, ANOVA and regression coefficients of the independent variables. The hypotheses were tested at 0.05 level (α=0.05), hence where the calculated p value was less than 0.05, the model was established to be statistically significant and the study failed to reject the null hypothesis but where the calculated p value was greater than 0.05, the model was established to be statistically insignificant and the study rejected the null hypothesis.

5.0. Research Findings

5.1. Respondents Characteristics

The researchers distributed 232 questionnaires, out of which 166 were responded to positively. This represented an overall response rate of 71.6%. The respondents were from 19 state regulatory agencies out of the targeted 23, representing 82.6% involvement of the state regulatory agencies in Kenya. Similar previous studies conducted in the Kenyan context by Muchemi (2013) and Muraga (2015) had comparable response rates of 72.5% and72.1% respectively. According to Mugenda and Mugenda (2003), 50% response rate is considered adequate, 60% good and above 70% very good. Very good response rates yield results that can be better inferred to a population

(Awino, 2011). Therefore, the study response rate was adjudged to be very good and appropriate. The respondent's characteristics are as shown in table 1.

Table 1: Respondents' Characteristics

Category	Number	Percentage
Designation		
CEO	10	6.0
Director/GM	45	27.1
Head of Department	84	50.6
Deputy Head of Department	1	0.6
Head of Section	24	14.5
Others	2	1.2
Total	**166**	**100**
Gender		
Male	115	69.2
Female	51	30.8
Total	**116**	**100**
Age		
30 and Below	1	0.6
31 - 35	5	3.0
36 - 40	9	5.4
41 - 45	47	28.3
46 - 50	65	39.2
51 - 55	34	20.5
Above 55	5	3.0
Total	**116**	**100**
Education		
Bachelors	19	11.4
Masters	131	79.0
PhD	16	9.6
Total	**166**	**100**
Tenure		
0 - 5	82	49.4
6 - 10	66	39.8
11 - 15	14	8.4
16 - 20	1	0.6
Over 20	3	1.8
Total	**166**	**100**
Functional Area		
Support	101	60.8
Technical	65	39.2
Total	**166**	**100.0**

The statistics in table 1 show that majority of the respondents were heads of departments at 50.6% (84) followed by directors/general managers at 27.1% (45), heads of sections at 14.5% (24), CEOs at 6.0% (10), others at 1.2% (2) and lastly deputy heads of departments at 0.6% (1). The findings in table 1 therefore demonstrated that all of the respondents were CEOs and those directly reporting to them as the top management team was conceptualized in the study. The summarized statistics presented in table 1 further show that the respondents were not fairly distributed across gender. There were more male respondents at 69.2% (115) than female respondents at 30.8% (51). For age distribution of the respondents, majority were in the age bracket 46-50 at 39.2% (65) followed by 41-45 at 28.3% (47), 51-55 at 20.5% (34), 36-40 at 5.4% (9), a tie of 31-35 and above 55 at 3% (5), and lastly 30

and below at 0.6% (1). Concerning the highest level of education, majority of the respondents had master's degrees at 79% (131), followed by bachelor's degrees at 11.4% (19) and Ph.D. at 9.6% (16). On the functional area of the respondents, support functions which had many departments had majority of the respondents at 60.8% (101) while technical departments which had few departments had 39.2% (65).

5.2. The Variable Characteristics

The descriptive statistics of the study variables comprising of the number of items used to measure the variables, Cronbach's alpha (α), aggregate mean score and aggregate standard deviation are as shown in table 2.

Table 2: Descriptive Characteristics

Variable	No. of Items	(α) Score	Aggregate Mean	Aggregate Std Dev.
TMT Demographic Characteristics	16	0.859	3.684	0.867
TMT Cognitive Characteristics	9	0.944	4.175	0.745
TMT Psychological Characteristics	24	0.867	4.570	0.430
Legal Environment	12	0.831	4.090	0.868
Organizational Performance	28	0.949	4.190	0.787

The descriptive statistics presented in table 2 show that the Cronbach's alpha was 0.859 for demographic characteristics, 0.867 for psychological characteristics, 0.944 for cognitive characteristics, 0.831 for legal environment and 0.949 for organizational performance that were all greater than the threshold Cronbach's alpha value of 0.7 adopted by the study, thus the research instrument passed internally consistency test. The overall aggregate mean score for demographic characteristics was 3.684 that indicates that the respondents on average agreed to a moderate extent that the attributes of the demographic characteristics applied to their independent regulatory agencies while the standard deviation of 0.867 indicates that there were considerable variations within and among the state regulatory agencies. The overall aggregate mean score for psychological characteristics was 4.175 with a standard deviation of 0.745 that indicates that on average the respondents agreed to a large extent with the attributes under psychological characteristics as pertains to their job performance in their current roles while the standard deviation indicates that the responses for psychological characteristics were more clustered around the mean scores than were the scores for demographic characteristics. The overall aggregate mean score for cognitive characteristics was 4.57 with a standard deviation of 0.430 that indicates that on average the respondents agreed to a large extent with the attributes under cognitive characteristics as pertains to their job performance in their current roles while the standard deviation indicates that the responses for cognitive characteristics were more clustered around the mean scores than were the scores for both demographic characteristics and psychological characteristics. The overall aggregate mean score for the legal environment was 4.090 that indicates that the respondents on average agreed to a large extent that the attributes of the legal environment applied to their independent regulatory agencies while the standard deviation of 0.868 indicates that there were considerable variations within and among the state regulatory agencies. Lastly, the overall aggregate mean score for organizational performance was 4.190 that indicates that the respondents agreed to a large extent that the attributes of organizational performance applied to their independent regulatory agencies while the standard deviation of 0.787 indicates that there were considerable variations within and among the independent regulatory agencies.

5.3. Test of Hypotheses

The test of the research hypotheses was conducted was on stages. First, the study tested the direct effect of TMT characteristics on organizational performance of the state regulatory agencies. In order to test the hypotheses, a composite index of the various components of TMT characteristics was computed using the formula proposed by Kilika (2012) based on the harmonic mean.

5.3.1.   Test of Hypothesis One

This hypothesis sought to understand whether there is any statistically significant effect of the combined effect of TMT characteristics on the performance of the independent regulatory agencies in Kenya. The regression analysis output is summarized in in table 3.

Table 3: Regression of Organizational Performance on TMT Characteristics

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.556[a]	.309	.305	.37618	2.049

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	10.378	1	10.378	73.335	.000[b]
1	Residual	23.208	164	.142		
	Total	33.586	165			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.030	.361		2.853	.005
	Combined TMT Characteristics	.763	.089	.556	8.564	.000

The results indicate that TMT characteristics explain 30.5% of the variation in organizational performance of the independent regulatory agencies in Kenya. The other 69.5% of the variation is attributed to other factors not included in the empirical model. The F statistic of 73.335 with a p-value of 0.000 indicates that the regression model is significant in predicting this relationship. The summarized statistics in table 3 further show that the beta coefficient for the constant (β_0) is 1.030 with a t statistics of 2.853 and a p value of 0.005 while the standardized beta coefficient for the combined TMT characteristics (β_1) is 0.556 with t statistics of 8.564 and p-value of 0.000. Since the p-value is less than the significance level of 0.05, combined TMT characteristics was found to be a significant predictor of organizational performance. The β_0 of 1.030 implies that with the combined TMT characteristics held constant, organizational performance will be at 1.030 while β_1 of 0.556 indicates that if all other factors are constant, a unit change in the Top management characteristics would result to 0.556 change in organizational performance. Hypothesis one is therefore supported and the study concluded that TMT characteristics has a significant statistical effect on organizational performance of the independent regulatory agencies in Kenya.

5.3.2.   Test of Hypothesis Two

This hypothesis sought to understand whether there is any statistically significant moderating effect of the legal environment on the relationship between TMT characteristics and organizational performance of the independent regulatory agencies in Kenya. To evaluate the moderation effect of legal environment on the relationship between TMT characteristics and organizational performance. Two steps regression analysis was conducted in accordance with the moderation model proposed by Whisman and McClelland (2005). The results from the four steps are summarized in table 4.

Table 4: Summary of Regression Results for the Moderating Effect

Parameter	Step 1	p-Value	Step 2	p-Value	Change	Decision
R^2	0.309	-------	0.533	------	0.224	Legal environment has moderating effect on the relationship between TMT characteristics and organizational performance.
Adjusted R^2	0.305	-------	0.527	------	0.222	
F Statistics	73.335	0.000	85.471	0.000	12.1336	
β Constant	1.030	0.005	1.889	0.000	0.859	
β TMT characteristics	β_{61}=0.556	0.000	β_{71} = 0.505	0.000	-0.051	
β Legal environment	--------	-------	β_{72} = 0.446	0.000	-------	
β Interaction Term	--------	-------	β_{73} = 0.589	0.000	-------	
Necessary Condition for Moderation β_{61} = 0.556, P = 0.000 hence Significant β_{72} = 0.446, P = 0.000 hence Significant β_{73} = 0.589, P = 0.000 hence Significant						

From the above summary of findings in table 4, the beta coefficient of TMT characteristics reduced from 0.556 in step 1 to 0.505 in step 2 implying a reduction of 0.051 units. The model was fit at F = 85.471, p = 0.000. For step 1, the adjusted R^2 was 0.309 while for step 2 the adjusted R^2 was 0.527, implying an overall increase of adjusted R^2 by 0.222 units. The results thus implies that the percentage of the dependent variable explained by variables in the regression model increased by 22.2% in step 2. According to McClleland and Whisman (2005), a tested moderator is said to be an explanatory variable if the coefficient changes from significance to non-significance. However, the tested moderator is said to have moderating effect if the interaction term coefficients remains significant. The decision on the hypothesis was made using the criteria recommended by Fairland and MacKinnon (2009) that states that if the regression coefficient of the interaction term is statistically different from zero, there is evidence of significant moderation of the relationship between independent variable and the dependent variable. Since β_3 = 0.589 at t = 9.859 and p-Value = 0.000, it is statistically different from zero and significant. Therefore the study rejected the null hypothesis and concluded that legal environment has significant moderating effect on the relationship between top management team characteristics and performance of independent regulatory agencies in Kenya.

6.0. Discussion of Findings

The conclusion of this study can be explained by the descriptive statistics, results from previous researchers and the open systems theory. From descriptive statistics, the three sub-variables under legal environment of sector policies, Acts of parliament/presidential directives and regulations had aggregate mean scores of 3.92, 4.18 and 4.10 respectively with the overall aggregate mean score for the aspects of the legal environment investigated at 4.09 with a standard deviation of 0.868. This means that the respondents to a large extent agreed with the attributes that were measured under the legal environment. In dealing with the legal environment, the context of the study is key as businesses may be in the same kind of legal environment but get affected differently. Like commercial businesses and state corporations, although operating in the same legal environment, will feel the effects differently, this is also true for independent regulatory agencies.

The findings support the postulates of the open systems theory that external environments affects organizations as they conduct their businesses, or in other words, organizations are environment serving and dependent. Top management teams in organizations are responsible for carrying out the business activities of their organizations in order to achieve desirable performance but in carrying out the activities, TMTs must identify opportunities and threats in their environments. They must thus possess attributes to enable them sense and to take actions necessary either to exploit the opportunities or neutralize the threats. For independent regulatory agencies, the legal environment defines their powers and functions that their TMTs use to achieve their objectives and goals.

The findings of the current study are consistent with the observation made by Mkalama (2014), that laws that create and define the mandates of the state corporations and other laws of the land are considered important to the decisions taken and consequently performance of the state corporations. The findings are also consistent with the observation by Njoroge (2015) that external environment moderated on the relationship between strategy implementation and performance of state corporations in Kenya.

7.0. Contribution of the Study

The findings of the current study thus fill the gap identified in the empirical literature review that in investigating the influence of TMT characteristics on organizational performance, it is important to include other variables that affect the relationship. Because TMTs work within legal and institutional frameworks in pursuit of their organizations' mandates, missions and visions in order to achieve the desired organizational outcomes, legal environment is therefore one such variable that affects the relationship between TMT characteristics and organizational performance. The established moderating relationship therefore adds knowledge to strategic management research and practice.

8.0. Conclusions and Recommendations

From the findings of the study reported, the research makes three conclusions. First, that the respondents on average agreed to large extent that the attributes of legal environment applied to their independent regulatory agencies, Second, that the finding could be explained by the fact that the sector policies or presidential directors and Acts of parliament gives the independent regulatory agencies their mandates, funding mechanisms and their institutional arrangements, while regulations gives the independent regulatory agencies their oversight role over the regulated entities and the sectors. The study likewise makes two recommendations. First, that the independent regulatory agencies should have clear institutional frameworks with clearly defined relationships with the government and their regulated entities and industry. Second, that for judicial system to recognize and support the work of the independent regulatory agencies in enforcement of the laws and regulations for their sectors or sub-sectors.

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