EFFECTS OF CHIEF EXECUTIVE OFFICERS’ TURNOVER AND SUCCESSION ON THE PERFORMANCE OF STATE CORPORATIONS IN KENYA

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ABSTRACT

The Chief Executive Officer is one important organizational resource that sets the path for the firm’s strategic direction. Existing research on the effects of Chief Executive Officer’s turnover and succession on the performance of state corporations are limited to developed countries. The general objective of the study was to establish the effects of Chief Executive Officer’s turnover and succession on the performance of state corporations in Kenya. The specific objectives of the study were to determine whether social networks, leadership and core competencies of the Chief Executive Officer affect the performance of state corporations in Kenya.

The study was carried out in Nairobi where the Chief Executive Officers and management staff of 11 state corporations were based. The research study used descriptive research design and the target population constituted 477 management staff and Chief Executive Officers of the eleven state corporations. However, only 153 formed the sample size which represented 30% of the total population. The Chief Executive Officers, heads of departments and middle level management formed the key respondents of the research study. The study employed a structured questionnaire to collect data.

Data collected was analysed using Social Science Statistical Package. Multiple regression analysis was used to establish the relationship between the independent and dependent variables. Reliability was also tested using Cronbachs alpha and all the variables met the threshold for subsequent analysis. Factor
analysis was also employed to test for validity where the questions that did not meet the threshold were dropped and not considered for subsequent analysis. Correlation analysis indicated that social networks, leadership styles and core competencies had a positive and significant relationship with organizational performance of state corporations.

Regression analysis was used also to test the nature of the relationship and it was reported that among the three independent variables. Social networks had a positive but insignificant relationship with performance of state corporations. Leadership style was leading explaining 70% of the variation in performance of state corporations followed by core competencies explaining 27% and finally social networks explaining 10% of variation in performance of state corporations in Kenya. The combined effect of the three independent variables explained 94.5% of variation in performance of state corporations in Kenya. The study therefore concluded that leadership style had a prominent effect on the performance of state corporations in Kenya.

**Key words:** Chief Executive Officers, Turnover and Succession, Performance, state Corporations

**Introduction**

Often times, organizations concentrate their short and long-term planning process on capital improvements and operational programs, without fully integrating the accompanying impacts on the development needs of the employees responsible for delivering services. Therefore, the capabilities of employees are not systematically developed to match the skills needed and a gap occurs between what the customers require and the ability of employees to respond, Allen, Pannian and Lote (1979), Haveman, 1993, Parker, Peters and Turesky (2002).

Effective organizations do not passively wait for the future; they create it by investing their time, thoughts, and planning in order to ensure the continuity of their leadership talent. This process is otherwise known as succession planning which ensures the continued effective performance of the organization by establishing a process to develop and replace key staff over time, such as Chief Executive Officer, (Carrol, 1984, Singh, House and Tucker 1986, Parkerr, Peters and Turetsky, 2002).

The departure of a Chief Executive Officer can create instability in an organization. Such turnover is even much challenging if unplanned. Succession planning, therefore, is bound to go a long way to address both voluntary and expected departure by a key organizational officer. The
issue of employee turnover must be predicted as inevitable and mechanisms put in place to cushion the organization from suffering the shocks of either voluntary or involuntary turnover, Carey, Pelan and Useem (2009).

Chief Executive Officer turnover is the rotation of CEO’s around the labor market; between firms, jobs and occupations; and between the states of employment and unemployment, Abassi and Hollman (2000). This workforce activity segments into two categories, voluntary and involuntary. Involuntary turnover refers to the dismissal of employees, whereas voluntary turnover occurs when employees resign. In this study we are looking at CEO’s turnover in general whether voluntary or involuntary. This study seeks to establish the full consequences of a Chief Executive Officer leaving his leadership position in an organization by whatever means. The circumstances can be voluntary or involuntary; is incapacitated or even by his demise (accident or ill-health), Shen & Cannella (2003).

The study emphasized on the effects of CEO’s turnover and succession and specifically, social networks, leadership styles, core competencies and organizational performance consistent with the widely accepted assumption that the Chief Executive Officer is the most important individual that influences the strategic direction of the organization and determines its capabilities, Shen and Cannella, (2003).

**Problem of research**
Past studies on effects of Chief Executive Officer turnover and succession on the performance of state corporations were carried out in the United States, United Kingdom, Australia and Malaysia by Beatty and Zajac (1987), Grusky (1963), Kesner and Sebora (1994), Randals, (2001), Khurana (2001), Pamella D. (2003), Huson (2004), Bleggad B. (2010) who contributed to financial economics literature considered the Chief Executive Officer as a shareholders’ agent in state corporations.

Besides the fact that none of the past studies on effects of Chief Executive Officer turnover and succession on the performance of state corporations have been undertaken in Kenya, past studies did not consider the Chief Executive Officer as a single most important stand-alone resource to
the state corporation, with own social networks, peculiar leadership style, unique core competencies which he or she as an individual brings to the state corporation. As a result of this omission, the actual, effects of Chief Executive Officer’s turnover and succession on the performance of state corporations may have significantly been understated by past studies.

Therefore, the CEO’s turnover and succession not only means a change of share holders’ agent but more importantly a significant change in the social structure in which the entire state corporation has been embedded as a result of the CEO’s social networks, the quality of leadership and the unique core competencies possessed by the out-going CEO. In addition to the past studies not addressing these variables, it is a problem to Boards of Directors and recruiters of state corporations because if they recognize academic credentials only and ignore CEO’s social networks, leadership style and core competencies when recruiting CEOs, they will not reduce CEO’s high turnover. If Boards of Directors recruit CEOs on the basis of academic credentials only without taking into consideration their social networks, their leadership style and core competencies, there is likelihood that CEOs so recruited may not enhance performance among state corporations.

The Boards of Directors of state corporations on the other hand have not recognized social networks, leadership style and core competencies as critical attributes CEOs should possess to qualify to hold the CEO position. It is therefore, the purpose of this study to bridge the gap between the current phenomenon and move the State Corporations in Kenya to the expected state.

**Objectives of the study**

The study was guided by the following objectives; determine whether CEO’s social networks, leadership style, and core competencies, affect organizational performance of state corporations in Kenya.

**Research focus**
Chief Executive Officer turnover and succession and their relationship with company performance are not a novel subject of research interest. Although most studies have been conducted in the United States of America, United Kingdom, Australia, Malaysia, Zojac (1987), Grusky (1963), Sebora (1994), Randals (2001), Khurana (2001), Pamella (2003), Huson (2004) and Blaggad (2010) their findings are interesting and relevant for this study as they provide insights into how Chief Executive Officer turnover and succession and Company performance might be related.

Friedi S. and Resebo P. (2009) carried out a study on effects of Chief Executive Officer turnover among 341 companies listed in Swedish Stock exchange. The researches argue that the Chief Executive Officer turnover has a negative correlation with company stock development. This effect is strongly significant in the short run (0-1 Year), and only slightly significant in the long run (0-2 and 0-3 years) but is consistent over all periods.

Fristedt and Sundqvist (2009) is a study on the rate of turnover of CEOs fund out that between 1994 and 2009 the Chief Executive Officer turnover rose between 8.4% and 16.4%. The study attributed the rise to structural changes, globalization, cost-saving programs, reorganisations, higher demand for short-term returns and doing quarterly reports. The study argues that the Boards of directors change the Chief Executive Officer to avoid poor performance or to enhance performance, Sjdund (2006).

Kaplan and Minton (2008) in their study in Sweden also indicate that bad performance is positively correlated with high Chief Executive Officer turnover. The study argues that the justification for the correlation could be that there is a belief that changing a Chief Executive Officer is a remedy for poor performance. Such beliefs according to the research study are based on the assumption that the Chief Executive Officer has a significant impact on organizational performance. Fristedt and Sundqvist (2009) further argue in their study that possible explanations for the negative effect are; that it takes longer time than three years for a new Chief Executive Officer to have a positive effect, that restructuring costs the first years when a new one
enters a company pressures the results, and that a new Chief Executive Officer often “clean the company’ by bringing to light all bad investments.

Kaplan and Minton’s (2008) study on how Chief Executive Officer turnover has changed and how it correlated stock performance was based on Chief Executive Officer turnover and stock performance for all fortune 500 firms in the United States of America. Their findings indicate that high Chief Executive Officer turnover has increased and is correlated with poor stock performance. Warner, Watts and Wruck (1998) used a random sample of 269 firms listed on New York and American stock exchanges in 1962. They recorded every Chief Executive Officer change from 1963 to 1978. Their study established that there is a relationship between Chief Executive Officer’s turnover and succession and organizational performance.

Puffer and Weintrop (1991) tested the relationship between Chief Executive Officer turnover and organizational performance using a sample of 48 large publically owned companies traded at the New York and American stock Exchange. On their first test they excluded companies in which the departing Chief Executive Officers were under 63 years old and thus were below retirement age. Their principal finding in this test was that Chief Executive Officer turnover occurs when reported annual earnings per share fall short of expectations, but also found a systematic relationship between high Chief Executive Officer turnover and declining market share.

Studies done by Finkelstein and Hambrick (1996), considers two theories of strategic leadership and strategic choice. The two theories hold that the company is a reflection of the Chief Executive Officer and his or her perceptions because the strategic choices they make will to a large extent impact on firm performance. According to the study, changing a Chief Executive Officer impact on firm performance since the new Chief Executive Officer will have a new approach that may not be similar to that of the previous CEO. The study further argues that the Chief Executive Officer influences the structure of the organization by selecting from a range of possible structural configurations to fit with the business environment. Since the Chief Executive Officer can affect the company’s fit with the business environment the Chief
Executive Officer can enhance or deteriorate performance. The study concludes that change of the Chief Executive Officer have a significant effect on company performance.

A further research study by Sundin and Sven-Ivan (2004) asserts that the Chief Executive Officer is responsible for the operations of the Company and it is the Chief Executive Officer who makes most strategic decisions, even if approval from the board is sometimes needed. Such strategic decisions could include entering a new market, launching a new product, or reorganizing the company structure. It seems logical that such decisions should have an impact on company performance. They further argue that the fact that a change of Chief Executive Officer often leads to many other managerial changes within a company further supports the argument that Chief Executive Officer turnover has an impact on company performance.

Additionally, the study posits that Board members spend a large amount of time and effort when selecting the Chief Executive Officer and that hiring and firing the Chief Executive Officer is the most important task for the board. Why would that be if the Chief Executive Officer cannot affect company performance when he or she departs? Literature has been published on various aspects and perspectives of leadership turnover and succession, such as the importance of succession management to companies, Taylor & McGraw, (2004); Huang (2001), successor rates, Dalton & Dalton (2007); Brant, Dooley & Imam, (2008), successor origins, Agrawal, Knoeber & Tsoulouhas (2006); Kesner & Dalton, (1994); Worschel, Jenner & Hebl, (1998), the financial impact of succession events, Shen & Cannella, (2002); Khanna & Poulsen, (1995); Zajac, (1990), Chief Executive Officer compensation, Johnston, (2005) and succession theories, Kesner & Dalton (1994). While all the areas investigated relate to the broader issues of leadership turnover and succession, and in particular that of CEO, there is a paucity of literature on the study of CEO turnover and succession in relation to organizational performance.

This is supported by two authoritative Hewitt Associates reports released in the years 2005 and 2007. These reports by the Hewitt Associates, one of the world’s largest human resources outsourcing consulting firms, show that there is a systemic lack of formalised succession processes in the majority of Fortune 500 companies in the USA. The reports show that when
comparing the top-performing 20 companies with over 350 other companies, the one distinguishing feature that separates them is the rigour with which these high-achieving 20 companies employ in developing their future leaders. Parry and Mason (2006) of Future Sensce, Inc., cite the example of how McDonald’s Corporation is able to put together a series of smooth leadership succession transitions. The authors say,

“One of the most successful (yet tragic) Chief Executive Officer turnover and succession implementations in recent history occurred at McDonald’s Corporation. In early 2004 the then Chief Executive Officer Jim Cantalupo had begun to steer the strategic direction of the company towards more healthy offerings in the face of harsh criticism from public health officials. In April, Cantalupo was scheduled to deliver at the convention. Just seven months later when Bell resigned from his post due to health problems, the Board did not hesitate in appointing the Vice Chairman James Skinner to Chief Executive Officer and promoting Michael Roberts to president and COO, making his next in line for the Chief Executive Officer position. In another seamless transition Skinner and Roberts continued to carry out the strategic initiatives that Cantalupo and Bell had championed. This was a remarkable feat, considering that most companies are not prepared to replace one CEO, let alone a second only seven months later. Companies should strive to have a plan in place where several qualified, prepared successors exist internally, Parry & Mason, (2006).”

In order to have several qualified and prepared successors internally, it would be reasonable to conclude that a company’s leadership succession processes must go beyond the Chief Executive Officer and include managers who constitute what Hambrick and Mason (1994) call the ‘upper-echelons’ or what Smith, Houghton, Hood and Ryman (2006) term as the ‘top management team’ of an organisation’s management hierarchy. Hambrick and Mason (1984) define the upper-echelons as the senior management team who are involved in the strategic vision and direction of an organisation.

Despite the fact that the knowledge contained in the Hewitt Associates’ Reports (2005, 2007) is widely available, the Hewitt Associates asserts that the majority of Fortune 500 companies in the
USA continue to neglect this important element of organisational strategy as concurred by earlier conclusions reached by Santora, Clements and Sarros (1997). Furthermore, even in companies which claim to have succession planning systems, the treatment of these issues is often not a matter of priority. It is usually handled in an ad-hoc fashion or in a manner which is more akin to leadership replacement, which is about replacing leaders who have left the company, rather than leadership succession management, which is more concerned with the development of leadership readiness to take on organizational responsibilities, Hardy (2004).

It is therefore reasonable to argue that the matter of leadership succession is of importance to any organization and that the factors hindering or enhancing succession should be investigated, understood and, where appropriate, either avoided or applied. This research addresses these concerns and highlights the effect of Chief Executive Officer turnover and succession on the performance of State Corporations in Kenya.

**Methodology of research**

**General background of research**

State Corporation Act has been established by an Act of Parliament to make provision for the establishment of state corporations and for control and regulation of the state corporation. In the Act, a state corporation is defined as a body corporate established by or under an Act of Parliament or other written laws. A state corporation has perpetual succession; in its corporate name is capable of suing and being sued and is capable of holding and alienating an immovable property. The President assigns ministerial responsibility for any state corporation and matters relating thereto to the Vice-president and Ministers as the President may by directions in writing determine (Cabinet Office, 2007).

State corporations are managed by Boards, a chairman appointed by the President who is not executive. There is an inspector of state corporations whose office is an office in the public service and whose duties are to advise the government on all matters affecting the effective
running of state corporations, (Global Integrity, 2007). The Kenya government forms state corporations to meet both commercial and social goals. They exist for various reasons including providing; health, education, redistributing income or developing marginal areas, (Republic of Kenya, 2007).

State corporations are responsible for delivery of quality socio-economic services to the public. These include services in trade, investment, tourism, human resource development, utilization and employment, culture, sports and wildlife conservation and management, (Republic of Kenya, 2007). In view of the critical role the state corporations play within the Kenyan economy it is very important to put in place systems and management practices that support business continuity through provision of leaders when required where they are required.

The study tested three research questions that were derived from the objectives of the study. The study adopted descriptive research design to support and meet the research objectives. The descriptive design was flexible and expansive enough to adapt to various field challenges that could arise during administration of questionnaire and data interpretation, Kombo and Tromp (2006). This research design was used for the purpose of developing theory, identifying problems with current practice, justifying current practice, making judgements or determining what others in similar situations are doing, Herbert (2011).

**Sample of research**

For purposes of this study the population was drawn from eleven state corporations comprising of CEOs, heads of departments, middle level managers and lower level management staff totalling 477. State corporations constitute a major source for ex-chequer resources and therefore their performance in the economy is very important, Cabinet Office, (2011). The study stratified the state corporations into three strata; very good performing, good performing and poor performing. Purposive sampling proportional to size was used to select corporations within each strata.

The research identified the sample respondents from the various departments who included human resources, marketing, finance, operations and public relations but only a sample of 153
was chosen to participate. This formed 30% of the population. Mugenda & Mugenda (2008), recommend that for small populations a sample of 30% is statistically significant. The respondents were Chief Executive Officers, Heads of Department, Middle level and lower level management staff from the above firms chosen using simple random sampling to give them equal chances of being selected.

**Instruments and procedures**

The study used a structured questionnaire administered to the sample. The structured questionnaire was guided by the objectives of the study. The structured questionnaires were recommended because they help the respondents to respond more easily and help the researcher to accumulate and summarise responses more efficiently, William (2006). Using the questionnaire, the study targeted the sample size of population of CEO’s, Heads of department, middle and lower level management staff of the above organizations. The CEO’s, middle level managers and lower level management staff were more likely to be most knowledgeable with respect to the overall situation of their firms.

A pilot test was conducted using questionnaires administered to 15 individuals in the above firms. This constituted 10% of the 153 staff. The individuals were selected using sample random sampling. A pilot test was conducted to detect weaknesses in design and instrumentation and to provide proxy data for selection of a probability sample, Cooper & Schindler (2006). The study also used Cronbachs alpha to test for reliability of the data, where by all the independent variables met the threshold of 0.7 in accordance with Nunnaly, (1978).

Factor analysis was also used as a reduction method in order to reduce the data to manageable and meaningful size in order to be left with the data that addresses the key phenomenon. The result of factor analysis was to reduce the items to only those that meet the threshold of 0.5 as indicated by (Child, 1990).

**Data Analysis**
The questionnaire was screened to remove those that are incomplete or poorly filled and countercheck to ensure that they are all correctly filled. The qualitative data was then converted into quantifiable forms by coding all relevant data followed by systematic assembly. Statistical Package for Social Science (SPSS) was used for analysing the data to generate tables, graphs and statistical parameters. Descriptive statistics of both independent and dependent variables were established, test for normality of the dependent variable was established so that the researcher can do subsequent analysis. Factor analysis was done to reduce the data and be left with the only items that meet certain threshold. Reliability analysis was conducted through the use of Cronbachs alpha. Correlation analysis was used to test the nature of the relationship between the variables. Regression analysis was also used to test whether the independent variables had any effect on performance of state corporations in Kenya.

For the purpose of conducting the analysis in this study sub-variables under organizational performance namely profit growth, sales growth and growth in earnings per share were identified. These are the items to be measured for the dependent variable. Linear Regression Analysis was performed to measure the relationship between dependent and independent variables. Normality tests were done so that the researcher could continue with further analysis.

Independent variables were run through the statistical package for social sciences to test their reliability. Reliability test was done to check whether the independent variables are reliable.

Cronbachs Alpha was used to test this. Correlation analysis was done to test any chances of multicolinearity before factor analysis was done. Correlation matrix was used to gauge the items that were considered for further analysis. In the case where the correlations were less than 0.2 they were not considered for subsequent analysis. Validity analysis was done to check whether the instruments were valid. Factor analysis was used to reduce the factors considered for subsequent analysis. Analysis of variance (ANOVA) test was then used to study the amount of variation within each of the sample relative to the amount of variation between samples before conducting multiple regression analysis which is a test of multi collinearity. Analysis of variance
was used because it makes use of the F-test in terms of sums of squares effects over sums of squares residual (Mugenda, 2008; Sekaran, 2008; William, et al., 2010).

The study used Multiple Linear Regression Analysis to measure the relationship between the independent variables, that is, CEO’s social networks, leadership style and Chief Executive Officer’s core competencies and the dependent variable, that is, organizational performance. The Multiple Linear Regression Analysis indicated that organizational performance was a function of the sum of CEO’s social networks, CEO’s leadership styles and CEO’s core competencies. Therefore the research study used the following model to test whether CEO’s social networks, leadership style and core competencies had any influence on organizational performance.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon \]

Where:

\( \beta_0 \) – is constant
\( \beta_1, \beta_2, \beta_3 \) – intercepts for the independent variables
\( Y \) = Performance
\( X_1 \) = CEO’s Social Networks
\( X_2 \) = CEO’s Leadership style
\( X_3 \) = CEO’s Core competencies
\( \epsilon \) = Error term

**Results of Research**

In this research study, a total of 142 questionnaires were issued to respondents comprising Chief Executive Officers, heads of departments and middle level management staff. Completed questionnaires received were 115, which represented 81% response rate. The remaining 27 questionnaires were discarded because of incomplete answers or partially filled defective
responses as they were not useful for statistical purposes. The response rate was considered excellent for further analysis because it was over 70% which is recommended as excellent and therefore it was adequate for statistical analysis. According to Mugenda (2008), 70% response rate is considered excellent, therefore can be considered for subsequent analysis.

Factor analysis as a reduction method was used in order to have a meaningful number of questions that meets the threshold of 0.5 which is the standard (Child, 1990). Out of the total 19 questions on social networks only 13 met the threshold as indicated on table 11. The 13 questions that were left for consideration for subsequent further analysis had coefficients ranging from 0.714 to 0.509. However, the remaining 6 questions were dropped and not considered. The following Table 1 indicates the factor analysis results of social networks.

**Table 1: components matrix of social networks**

| Component 1 | CEO's memberships in the intra-firm and inter-firm social networks can potentially yield benefits for their organizations. | 0.714 |
| CEO's memberships in the intra-firm and inter-firm social networks can potentially yield benefits for their organizations. | 0.690 |
| The departure of the Chief Executive Officer of such embeddedness translates to significant losses in terms of instrumental relationships and the strategic efficiencies he or she facilitates | 0.676 |
| In essence, high embeddedness in the intra-firm network places the Chief Executive Officer in the middle of the action, thus enabling him or her to contribute tremendously to the firm's exploitation and exploration capabilities. | 0.652 |
| Embeddedness in the intra-firm social network also has important implications for the CEO's role as an information gatherer within the organization | 0.633 |
| The organizational impact of Chief Executive Officer turnover and succession can be attributed to the nature of the individual's accumulated social capital from both types of networks(Intra-firm and inter-firm) | 0.623 |
The strength of ties in a social network has important implications for the quality of information an actor (e.g. a CEO) is privy to. Strong ties are characterized by a high level of trust and intimacy, thus enabling actors to gain access to information that is not widely available. Thus, great Chief Executive Officer’s social networks will improve the quality of the information flow over and above formal structures and procedures and thus enhance the effectiveness with which strategic decisions are implemented. The departure of the Chief Executive Officer of such embeddedness translates to significant losses in terms of instrumental relationships and the strategic efficiencies he or she facilities. When such a Chief Executive Officer leaves, this additional social channel is disrupted. The organization may fall short in meeting the information requirement for executing strategic decisions that have been made. Inter-firm social networks refer to the sets of relationships a Chief Executive Officer has with individuals outside the organization who hold information of potential value to the firm. His departure would affect these networks and linkages negatively. Stakeholders are affected by the departure of the CEO.

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

**Factor Analysis for leadership style**

Principal component analysis was done to transform the variables into a set of composite variables that are not correlated to each other. Out of 35 items analysed, only 18 items had the right variable loadings, confirming that leadership style was measured correctly. The 18 items met the threshold of 0.5.

**Table 2: Component matrix of leadership style**
Component 1

Transformational leadership is positively associated with leader effectiveness

Transformational leadership has consistently shown advantageous effects on a range of individual and organizational outcomes.

Transformational leaders appear to be more behavioural and less emotional when dealing with stress and conflict. They demonstrate internal locus of control, self-confidence and self-acceptance.

Transformational leadership is said to be positively associated with bottom line organizational performance.

Succession planning can also help organizations manage change in a more holistic way.

A positive relationship has been found between CEO's transformational leadership and staff motivation.

A CEO's leadership style, his personal attributes that include his emotional and social intelligence contributes not only to staff loyalty but also organizational effectiveness and productivity.

Individualized consideration; (i.e. followers' needs are addressed both individually and equitably).

Transformational leaders must possess multiple types of intelligence and that social and emotional intelligence are critical because these are important to the leader's ability to inspire employees and build relationships.
Inspirational motivation: (i.e. followers are motivated by attainment of a common goal)  

Intellectual stimulation (i.e. followers are encouraged to break away from old ways of thinking and are encouraged to question their values, beliefs and expectations).  

These attributes are rare and a firm loses them when they leave the organization  

Succession planning helps an organization to prepare for an unexpected event. It is often difficult to plan for the unimaginable  

A leader is a motivator, a strategic planner and resource mobilizer. He wins staff loyalty and is a motivator for them to aspire to achieve their best. His departure is bound to disengage the organization and affect its competitiveness  

Charismatic CEOs show determination when accomplishing goals, makes people feel good to be around him or her and communicates high performance expressions  

Charismatic leadership account for additional, unique effects in organizational performance beyond the effects of transactional leadership  

It is said that subordinates’ ‘organizational commitment is positively related (correlated) with the leadership behaviours of their CEOs.

There are likely leadership consequences that result from a CEO's departure

Extraction Method: Principal Component Analysis.

a. 1 components extracted.
Factor analysis was first conducted in order to have a meaningful interpretation. The variable had 22 items that were tested. However out of the 22 items only 9 items seemed to tap meaningful response. The 9 Items had a factor loading greater than 0.5. These items are shown on table 3.

**Table 3: component matrix of Chief Executive Officer Core competencies**

<table>
<thead>
<tr>
<th>Component</th>
<th>Component</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee training &amp; development</td>
<td>0.829</td>
</tr>
<tr>
<td>Quality improvement</td>
<td>0.794</td>
</tr>
<tr>
<td>Decision making process</td>
<td>0.773</td>
</tr>
<tr>
<td>Leadership &amp; mentorship</td>
<td>0.766</td>
</tr>
<tr>
<td>Strategic plan</td>
<td>0.756</td>
</tr>
<tr>
<td>Project implementation</td>
<td>0.749</td>
</tr>
<tr>
<td>Information</td>
<td>0.724</td>
</tr>
<tr>
<td>Salary increase &amp; Motivation</td>
<td>0.688</td>
</tr>
<tr>
<td>Board missed proper guidance</td>
<td>0.659</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

In this study reliability analysis was done on all the items that were validated by factor analysis. Cronbachs alpha was used which reliability coefficient indicated how well the items in the set were correlated to each other. The Cronbachs alpha has been computed in terms of the average inter-correlations among the items measuring the concepts. The rule of the thumb for Cronbachs alpha is that the closer the alpha is to 1 the higher the threshold (Sekaran, 2008).
The results of the analysis are presented on Table 4. The results showed that a combination of Chief Executive Officer’s social networks, leadership style and core competencies explained 94.5% of variation in organisational performance of state corporations in Kenya.

The multiple correlation coefficients generalise the standard coefficient of correlation. The essence of using regression coefficient is to check the significance of the p – value. The purpose of the regression coefficient of the independent variables that is social networks, leadership style and core competencies was used to test whether there was significant effect on organisational performance. This is reflected on Table 6
Table 6: Pearson Correlation Coefficients

<table>
<thead>
<tr>
<th>Organizational performance</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>0.136</td>
<td>114</td>
</tr>
<tr>
<td></td>
<td>0.279**</td>
<td>0.003</td>
<td>114</td>
</tr>
<tr>
<td></td>
<td>0.189*</td>
<td>0.044</td>
<td>114</td>
</tr>
</tbody>
</table>

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

From Table 6, it shows the individual correlations of the combined effect of the independent variables against the dependent variable. The results from the Table 7 indicates that social networks had 0.136, p=0.148, leadership style 0.279, p=0.003, core competencies had 0.189, p=0.044 correlation coefficients. However, from these independent variables social networks had a positive but insignificant influence on the performance of state corporations in Kenya.

The results and findings indicated that leadership style was leading with the highest influence on the performance of state corporations with a correlation of 0.279, followed by Chief Executive Officer’s core competences with correlation of 0.189 and finally social networks with correlation of 0.136. Therefore, the study concluded that leadership style was the most prominent indicator of Chief Executive Officer’s turnover and succession in Kenyan state corporations.

Table 7: Overall Regression Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>B</td>
<td>Std. Error</td>
<td></td>
</tr>
<tr>
<td>Chief Executive Officer’s Social networks</td>
<td>0.067</td>
<td>0.076</td>
<td>0.882</td>
</tr>
<tr>
<td>Leadership style</td>
<td>0.170</td>
<td>0.051</td>
<td>3.340</td>
</tr>
<tr>
<td>Core competencies</td>
<td>0.173</td>
<td>0.061</td>
<td>2.821</td>
</tr>
</tbody>
</table>

The overall independent variables were regressed against the dependent variable. The results indicated that social networks had a positive but insignificant effect on organisational
performance of state corporations in Kenya with unstandardized beta coefficient of 0.067, p = 0.380. This variable surpassed the threshold since p > 0.05.

However leadership style and Chief Executive Officer’s core competencies had positively and significantly affected organisational performance of state corporations in Kenya. These independent variables meet the recommended threshold of p ≤ 0.05; leadership style had an unstandardized beta coefficient of 0.170, p = 0.01 and core competencies had unstandardized beta coefficient of 0.173, p = 0.06. Therefore it can be concluded that leadership style and core competencies prominently affect the organisational performance of state corporations in Kenya as shown on Table 7.

The Analysis of variance results indicated the model of organisational performance with social networks, leadership style and core competencies was significant at p < 0.05 and explained the variance in organisational performance among state corporations in Kenya. The results of the analysis of variance for the full model are presented on Table 8.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>64614.751</td>
<td>3</td>
<td>21538.250</td>
<td>658.489</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>3630.655</td>
<td>111</td>
<td>32.709</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>68245.406b</td>
<td>114</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3 X_3 + \epsilon \]

The assumption in this case when using the analysis of variance was that \( H_0: \beta_1= \beta_2= \beta_3 = 0 \)

\( H_1 \) – At least one of the \( \beta \) is not equal to zero.

P – value = 0.00 implying that the research study reflects the research questions and accept that at least one of the \( \beta \) is not equal to zero. This implies and concludes that social networks, leadership style and core competencies have significant combined effect on organisational performance.
The F – ratio which explained whether the results of the regression model could have occurred by chance (error) had a value of 658.489, p = 0.000 was considered significant.

**Discussions**

The results and findings indicated that both intra-firm social networks and inter-firm social networks had a great influence on the organisational performance of state corporations in Kenya. Factor analysis was done in order to reduce the social network items to manageable and meaningful size, where 13 items met the threshold of 0.5 and above. 6 items were dropped since they did not meet the threshold. After factor analysis, reliability analysis was done to establish how the items were reliable for this case. Cronbach alpha established the reliability with a coefficient of 0.862. Correlation was also done to establish the nature of the relationship and it indicated that there was a positive Pearson correlation of 0.136.

Regression analysis was also done whereby the results indicated that social networks had a goodness of fit of 10%. Indicating that social networks only explained 10% of the variation in the performance of state corporations in Kenya. The Pearson correlation also indicated that social networks within the Kenyan scenario have no significant influence on the performance of state corporations in Kenya. This was the case since the significance level did not meet the threshold of 0.05 but instead it yielded 0.148 which surpasses the threshold. The results and findings therefore conclude that although social networks have a positive correlation, in the Kenya’s state corporations, it does not have any effect on their performance.

For leadership style, factor analysis was also done in order to reduce the items into manageable and meaningful number. Out of the total 35 items that were to be considered, only 18 items met the threshold and therefore these were retained for subsequent analysis as indicated on Table 2.

Reliability analysis was also done to test whether there was internal consistency or not. The results indicated that leadership style had a coefficient of 0.890, which was the value of cronbach alpha. Correlation analysis was also conducted to show whether there was any relationship between leadership style and organisational performance. The results established that leadership
had a positive correlation of 0.270 and this was significant at 0.003. This indicated that leadership style met the threshold since the precision level was less than the threshold of 0.05.

Regression analysis results also indicated that leadership style had a variation of 70% that was explained in terms of organisational performance of state corporations in Kenya. Leadership style was very significant at P=0.001. The results therefore concluded that leadership style positively and significantly affects organisational performance of state corporations in Kenya as indicated on the coefficient of leadership style versus organisational performance.

For Chief Executive Officer’s core competencies, the results were subjected to factor analysis in order to reduce the items to manageable and meaningful number. The results indicated that out of the 22 items considered, only 9 items met the threshold and their factor loadings are indicated on Table 3. Reliability analysis was also conducted to establish whether there was eternal consistency with the variables. The results and findings established that CEO core competencies had a cronbach alpha of 0.922 which met the threshold and therefore the study concluded that the CEO’s core competencies were highly reliable.

Pearson correlation analysis was also conducted to establish whether there was a positive or a negative relationship. The results and findings indicated that there was a positive correlation of 0.189, and it was significant at P=0.044. This was an indication that CEO core competencies met the threshold according to Sekaran, (2008).

Regression coefficient was also used to compare values of critical (t) and calculated (t) and the results established that critical t = 1.645 while calculated t was 2.034. The study therefore concluded that core competencies positively and significantly affect organisational performance of state corporations in Kenya.

The study also combined the three independent variables versus the dependent variable. The results and findings indicted that the combination of CEO social networks, leadership style and core competencies explained 94.5% of variation in organisational performance of state corporations in Kenya. The results of the study indicated that social networks did not have a
significant effect on performance of state corporations in Kenya at $p=0.148$, while leadership style and core competencies had a positive and significant effect on performance of 0.044 Pearson correlation coefficients respectively.

The overall regression coefficients results also indicated that among the three independent variables social networks did not have a significant effect on performance. The study therefore concluded that leadership style was the most significant with $P=0.001$ followed by CEO core competencies with $P=0.006$. The study therefore concluded that social networks, leadership style and core competencies have a significant combined effect on organisational performance.

**Conclusions**

The objectives of the study which were to determine whether the CEO’s social networks, leadership style, and core competences affect the performance of state corporations in Kenya were tested and the results indicated that all the independent variables that were investigated had positive significant influence on the performance of state corporations in Kenya. The importance and justification of the study was to establish whether a connection exists between CEO’s social networks, leadership style, core competencies and the performance of state corporations and therefore suggest that Boards of directors of state corporations needed to incorporate these attributes into the CEOs selection criteria and process.

The results of the study revealed that CEO’s social network alone did not have significant positive relationship with the performance of state corporations in Kenya. However, leadership style and core competencies each had significant positive relationship with the performance of state corporations. Further, when CEO’s social networks were combined with leadership style and core competencies and tested; their combined effect had significant positive influence on the performance of state corporations in Kenya.

The results of the study demonstrated that CEO’s social networks; leadership style and core competencies have a major contribution to enhancing performance of state corporations. Therefore, the more the social networks, the better the leadership style and the higher the core
competencies the better the chances of enhanced performance of state corporations in Kenya. Furthermore, the results of the study enhanced the importance of leadership, human capital and knowledge management theories by demonstrating that the theories had significant positive relationship with the performance of state corporations.

References


