

**MODERATING EFFECT OF MACRO ENVIRONMENT ON THE
INTERVENING EFFECT OF CAPITAL STRUCTURE ON THE
RELATIONSHIP BETWEEN STRATEGY IMPLEMENTATION AND
PERFORMANCE OF ENERGY SECTOR INSTITUTIONS IN KENYA**

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ABSTRACT

Objective of the Study: The current study sought to establish the moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya. Financing decisions and its effect on firm value continues to attract the attention of researchers who have explored several internal and external factors that influence the financing decisions of the firm and how it affects firm value. The influence of macro environment factors on capital structure of firms is one of the issues currently confronted by the financial managers as they make decisions on monetary and real market frameworks within which firms operate. The macro environment factors are expected to

exert a significant influence on all of the financial and investment decisions. A firm's selection of sources of financing is determined by the external environment, which consists of the degree of economic development of the country, the political environment, the level of capital market development, the monetary policy of the country, the level of interest and tax rates, the state support of entrepreneurship, the legislation in force, the level of competition in the particular sector, the degree of information asymmetry and other factors. This study was anchored on open system theory and supported by the pecking order theory and resource-based view theory.

Research Methodology: This study adopted positivism philosophy. The target population was the 68 institutions under the energy sector. The pilot test was carried out on twenty managers from different departments of the selected firms. The quantitative data was analysed using Statistical Package for Social Sciences (SPSS version 22).

Findings: The study revealed that there was a statistically significant moderating effect of macro environment on the intervening effect of capital structure. The joint effect of macro environment and capital structure was higher and significant compared to the individual effect of individual variables therefore rejecting the hypothesis that there is no significant moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya. The findings also revealed that when the interaction term was introduced, indicated a significant relationship, thus macro environment was found to moderate the relationship between capital structure and performance confirming phenomenon of moderated mediation.

Conclusions and recommendations: Therefore, it was concluded that, the introduction of macro environment had an enhancing moderating effect on the relationship between capital structure and performance. The study recommends that Energy sector institutions ought to be keen on developing policy guidelines to support their organizations to access capital, build capacity and adopt appropriate technology and earn a fair return on their investment. In addition, policy makers should enhance political support and develop enabling laws, policies and regulations which facilitate investment for superior performance by Energy sector institutions. Finally, the study recommends that Energy sector institutions be keen on current and trending issues, emerging technologies, new legal regulations, inflation, customer behavior, competition, supplier challenges, sponsor demands, political shifts among other issues when sourcing for funds and also when making crucial financial decisions.

Keywords: *Strategy Implementation, Macro Environment, Capital Structure, Organizational Performance, Moderating, Intervening, Moderated Mediation.*

1.1 INTRODUCTION

Capital structure decisions are crucial for the organizational performance and that of the economy. Capital structure decisions consider macro environment factors around the organization to realize improved performance (Zarnowitz, 1992). The macro environment factors account for the majority of the volatility in the Gross Domestic Product (GDP) dynamics, and their magnitude serves as a significant leading indicator of economic performance (Zarnowitz, 1992). Capital structure decision have been attributed to managerial decision since it influences the shareholder return and risk (Pandey, 2002). The research aiming at investigating the process of investment decision at the

company's level has generally shown that it is a multi-criteria process (Enoma & Mustapha 2010) taking into account numerous factors. These factors include not only economic and risk factors but also the political and social environment and government regulations (Enoma & Mustapha 2010). Naturally, the effects of these factors on the financial decisions of individual companies vary significantly. Studies have generally shown that financial factors are more important with regard to the investment process for smaller firms (Liu & Pang 2009; Carr, Kolehmainen & Mitchell, 2010). When firms have limited access to capital markets, they are forced to rely more on internal funds such as, personal savings or funds borrowed from relatives or friends (Gill et al. 2012). Furthermore, to meet these needs and to assess the risk of investment, firms apply different types of financial bootstrapping methods (Winborg & Landstrom 2001; Ekanem, 2005). Large companies, on the other hand, have better access to external funding (collateral, credit, etc.) and, for the investment appraisal, use more formal methods such as capital budgeting (Sandahl & Sjogren 2003; Verbeeten 2006; Laux 2008).

Studies by Hall, Hutchinson and Michaelas (2004), Gaud, Hoesli and Bender (2007) and Fan, Titman and Twite (2012) emphasized on the importance of external factors and concluded in their respective studies that external factors have significant influences on the capital structure decisions of the firm. They further elaborated that even the influence of firm level determinants varies across countries which further endorses the argument that external factors are critical as far as the financing decision of the firm is concerned. Macro-economic conditions also determine the capital structure choice of firms. Studies by Korajczyk and Levy (2003) and Levy and Hennessy (2007) have looked into the influence of macroeconomic conditions on capital structure of firms based on their degree of accessibility to debt. Simerly and Mingfang (2000) established that competitive environment moderate the relationship between capital structure and economic performance and that the match between environmental dynamism and capital structure is associated with superior economic performance. The impact of macro-economic factors in the determination of capital structure is somewhat under-researched in the finance literature. Therefore, this study sought to establish the moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya.

Strategy Implementation

Strategy implementation involves activities in an organization that determine the course of action to be taken in order to stay afloat in a competitive environment (Murgor, 2014). Strategy implementation dictates the plans needed to arrive at set objectives and deliverables (Odundo, 2012). The strategy implementation process determines whether an organization excels, survives or dies (Barnat, 2012) depending on the manner in which it is undertaken by the stakeholders. In turbulent environments, the ability to implement new strategies quickly and effectively may well mean the difference between success and failure for an organization (Hauc & Kovac, 2000). Strategy implementation has been established through extensive research that it affects performance of organizations. Strategy implementation, which is anchored on institutional theory,

focuses on what, who, when, where and how to achieve desired goals and objectives (Njoroge, Machuki, Ongeti & Kinuu, 2015). Success of any organization depends on how strategy employed is implemented (Lefort, McMurray & Tesvic, 2015).

Strategy implementation is a critical process that guarantees proper functioning and survival of an organization during turbulent times (Sial, Usman, Zufiqar, Satti & Khursheed, 2013). Strategy implementation is a more elaborate and difficult task than strategy formulation (Sage, 2015) and involves concentrated efforts and actions and by all stakeholders in an organization. The practical experiences and scholarly works in the past have indicated that strategy implementation has a significant influence on organizational performance (Li, Gouhui & Eppler, 2008).

Macro Environment

The macro-environment, also denoted as the remote environment, comprises of factors that originate beyond and usually irrespective of any firms operating situation (Volberda, Morgan, Reinmoeller, Hitt, Ireland & Hoskisson, 2011). They include political, economic, social, technological, ecological and legal factors (Pearce et al, 2010). Firms' exist in open systems and cannot operate as closed systems because they are environment dependent and serving (Ansoff & McDonell, 1990). They depend on the environment to get their inputs for production and also to get somewhere to dispose off their goods and services. Firms operate in turbulent, often aggressive environments that pose constant threats to their growth and survival (Smart & Vertinsky, 1984) and in the long term, only effective firms endure and pull through. The higher the rate of change in the environment, the higher the number of major organizational goals that must be transformed and vice versa. The ability to predict organizational changes and keep pace with environmental variation rate is an important pointer of an organization's coping abilities (Hannan & Freeman, 1993). Changes and turbulence in the macro-environment influence the strategic choice dimensions adopted by firms and eventually the performance of each particular firm. Therefore, clearly macro environmental factors present firms with opportunities, threats and constraints, but rarely does a single firm exert any meaningful reciprocal influence (Pearce & Coghlan, 2008). Njoroge, Ongeti, Kinuu and Kasomi (2016) study established that external environment has a direct relationship and influence on organizational performance. Machuki and Aosa (2011) suggest that the macro environment factors should be handled as two wide elements, the variables (inner and external) and the size. According to Mthanti (2012), because of the impeding threats and possibilities that emerge from the macro-environment of the company, the dangers are a function of the complexity and uncertainty connected with the setting, the company faces different kinds of hazards.

Other scholars have also tried to establish the role and organizational structure of a firm, and its effect on company results. Gathungu, Aiko, and Machuki (2014) claimed that the capacity of a company to directly respond to the macro-environment is strongly dependent on the relationship between performance and other factors, including entrepreneurial orientation. Jin, Peng and Song (2019) found that macro environment factors (such as economic, political, social and technological forces) that firms face incidentally affect export performance from the external environment.

Another study by Kormishkina, Kormishkin, Semenova and Koloskov (2015) the macro-environment conditions include political, monetary, socio-cultural, mechanical natural and legitimate powers were found to have significant effect on export growth. Gathungu et al. (2014) claimed that the capacity of a company to directly respond to the macro-environment is strongly dependent on the relationship between performance and other factors, including entrepreneurial orientation. Leonidou, Leonidou, Hadjimarcou and Lytovchenko (2014) argues that the vibrant nature of today's environmental components presents a challenge in choosing which market platform to choose from. Machuki and Aosa (2011) also suggest that the environmental structure should be handled as two wide elements, the variables (inner and external) and the size. The investigation into the different factors that contribute towards the success of business or project in any environment has been seen to be of germane importance (Ram, Corkindale & Wu, 2013).

Capital Structure

Capital structure refers to the sources of financing, particularly the proportions of debt and equity that a business firm employs to fund its assets, operations and future growth (Jensen & Meckling, 1979). Adeyemi and Oboh (2011) define capital structure as the way in which a commercial enterprise funds its operations either through debt or equity capital or a combination of both. Capital structure is a mix of debt and equity including reserves and surpluses that makes up the finances of a company (Siddik, Sun, Kabiraj, Shanmugan & Yanjuan, 2016). From the strategic management point of view, capital structure analysis has always been an important issue since it attempts to meet the expectations of the various interested parties in a firm (Sultan & Adam, 2015). The study on capital structure tries to clarify the mix of stocks and financing sources used by business enterprises to finance investment portfolios (Jibrán, Wajid, Waheed & Muhammad, 2012). Sultan and Adam (2015) also explains that there is no general theory on the debt to equity preference but acknowledged that there existed some theories that tried to explain the capital structure mix.

Gul and Cho (2019) argued that the benefits of short-term debt financing over a short-term period fade out in the presence of information asymmetry. However, long-term debt financing overcomes the information asymmetry and enjoys the paybacks of tax advantage associated with long-term debt. The key objective of firms' financing decisions is wealth maximization and the impact such financing decision has on firm's profitability (Mwangi, Makau & Kosimbei, 2014; Githira & Nasieku, 2015). However, Xin (2014) note that the main responsibility of determining the optimal mix of debt to equity that will maximize firm's value falls under the owners. Abbadi and Abu-Rub (2012) noted that efficient firms stand higher chances of earning higher returns from a certain capital structure. These returns are useful in cushioning the firms against risky investment portfolios hence they are better placed to substitute the two sources of finance namely; equity and debt in their capital structure. Capital structure decisions are critical decisions in any business enterprise because they have an impact on a firm's value (Tongkong, 2012). Inept business decisions to finance a firm's operations may be avenues for a firm to face liquidation, fall into

financial distress or eventually be declared bankrupt. Firms with high leverage have the advantage to decide on an optimal capital structure to avoid unnecessary costs (Ting & Lean, 2012).

Organizational Performance

Organizational performance is the organization's ability to attain its goals by using resources in an efficient and effective manner (Daft, 2001). Ricardo (2001) defined organizational performance as the ability of the organization to achieve its goals and objectives. According to Ricardo (2001), there is a difference between performance and productivity. Productivity is a ratio depicting the volume of work completed in a given amount of time. Performance is a broader indicator that could include productivity as well as quality, consistency and other factors. The organizational performance is based on the idea that an organization is the voluntary association of productive assets, including human, physical & capital resources, for the purpose of achieving a shared purpose (Carton, 2004). Carton (2004), stated that successful performance of the organization can be compared with successful value creation for stockholders (Carton, 2004).

Organizational performance is the combination of financial performance, business performance, and organizational effectiveness (Terziovski & Samson, 2000). So, to measure the overall organization performance both financial and non-financial measures are important. An alternative way to apply non-financial measures is through subjective measure which supplements the financial measures (Covin & Slevin, 1989; Sandberg & Hofer, 1987). The combination of both financial and non-financial performance help the owners or top managers to gain insights on measuring and comparing their organization performance, especially the extent of effectiveness and efficiency in utilizing the resources, competitiveness and readiness to face the growing external pressure (Chong, 2008). Organizational performance is measured using financial and non-financial indicators. Financial indicators consist of Return on Asset (ROA), Return on Equity (ROE), Earning per Share (EPS). Non- financial indicators consist of the service delivery index, financial cost consciousness, employee satisfaction index, internal processes, performance contracting, customer satisfaction and quality of service.

1.2 STATEMENT OF THE PROBLEM

The impact of capital structure on financial performance has been a subject of great empirical investigations in finance. Capital structure is an important factor in improving the value and performance of the firm. The decision is important because of the impact such a decision has on the organization's ability to deal with its business environment. The difficulty facing companies when structuring their finance is to determine its impact on performance, as the performance of the business is crucial to the value of the firm and consequently its survival. Some capital decisions made by managers may not add value to the firm but may be meant for protecting the managers' interests.

Extant literatures have attempted assessing the impact of capital structure on firm performance in developed and developing countries. Abeywardhana (2015) investigated the relationship between capital Structure and profitability and revealed a negative and significant relationship. Moreover,

Akeem, Terer, Kiyanjui and Kayode (2014) studied the effects of capital structure on firm's performance and found out a negative relationship between capital structure and performance. Further, Salim and Yadav (2012) also realized a negative relationship between capital structure and firm performance. This relationship is negative for all proxies of capital structure used in their research, which are short-term debt, long-term debt and total debt ratios. Foo, Jamal, Karim and Ulum (2015) study revealed a negative relationship between capital structure and firm's return on equity. Nassar (2016) study results showed that there is a negative significant relationship between capital structure and firm performance.

In contrast, Javed, Younas and Imran (2014) found mixed results while Gill, Biger and Mathur (2011) study revealed a positive relationship between leverage and profitability. Hadi, Yusoff and Yap (2015) study indicated a positive relationship between earnings per share and share prices. Kashif (2017) reported ROA and ROE have significant positive relationship with debt to equity and debt to asset. Rahman, Sarker and Uddin (2019) study findings established that the debt ratio and equity ratio have a significant positive impact but debt to equity ratio has a significant negative impact on ROA. These studies, however, mainly focus on the impact of capital structure on firm performance overlooking other contextual factors that moderate the influence like the macro environment. The inconsistency in empirical results may point to the possibility, that important moderating variables such as macro environment may have been over-looked in carrying the studies. Hence the current study sought to assess the moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of Energy Sector Institutions in Kenya.

2.1 LITERATURE REVIEW

Theoretical Review

This study was anchored on open system theory and supported by the pecking order theory and resource-based view theory and institutional theory.

Institutional Theory

The initial wave of institutional theory was developed by DiMaggio and Powell (1991) among others. This theory was built on the argument that the institutionalized "rules and norms of society intrude on the internal structure of organizations" (Beggs, 1995). The core idea of institutional theory is that organizations are deeply embedded in an expansive environment and consequently become influenced by the pressures and constraints of this environment.

This theory asserts that organizations are social structures, which have achieved high degree of resilience (Njoroge et al., 2015). It postulates that where the businesses are situated has a great effect on the firm (Kinuu, 2014). This is because it dictates whether the business will actually survive (Njoroge et al., 2015). The link of strategy implementation, external environment and organizational performance can be explained by institutional theory. Institutionalization leads to successful strategy implementation, which leads to organization performance and finally contributes to sustainable competitive advantage (Kinuu, 2014). In the institutional theory,

organizations are influenced by normative reassurance arising from external forces such as the state and sometimes arising from forces within the Energy sectors institutions.

Open Systems Theory

Open systems theory was developed by Burnes (2004). The theory suggests that organizations operate in open systems where there is interaction between the internal and macro environment. The proponents of open systems theory suggest that as enterprises perform their trades, they will be subjected to events and changes in their macro environments. This is so since enterprises are environment serving and reliant (Ansoff & McDonell, 1990). Organizations are open schemes that need careful management to gratify and stabilize internal needs and adapt to external circumstances (Burnes, 2004). Open systems theory argues that organizations are strongly influenced by their environment for change and survival. This theory explains how strategy helps an organization to achieve sustainable competitive advantage. Thus, survival of organizations relies on its affiliation with the environment. Organizational performance is vastly associated to the vibrant evolutionary nature of the fit between the environment and the organization (Machuki & Aosa, 2011). For any organization to thrive, they must constantly interact with the ever-changing macro environment. Organizations exist in open systems.

Organizational external environment consists of the micro and macro environments. In this regard it is prudent for organizations' management to be keen on current and trending issues, emerging technologies, new legal regulations, inflation, customer behavior, competition, supplier challenges, sponsor demands, political shifts among other issues that may affect their organizational performance. Failure to be on the lookout for environmental shifts, adaptation and response may lead to loss of market share, losses and at times extinction. Energy sector institutions operate in open systems where they transact with the environment. They are thus affected by environmental changes in the micro and macro environments. This theory is crucial in this study as it explains the effects of macro environment on the performance. This explains the relevance of this theory in this study.

The Pecking Order Theory

The Pecking Order Theory (POT) was developed by Myers and Majluf in 1984. According to POT, firms have three main sources to fund the financial needs which are internal funds, debt and new equity. The POT suggests that firms will initially rely on internally generated funds, and then they will turn to debt if additional funds are needed. Finally, they will issue equity to cover any remaining requirement (Ahmad, Abdullah & Roslan, 2012). The pecking order theory assumes that there is no target capital structure. This theory argues that firms follow a certain hierarchical fashion in financing their operations in the sense that they initially use internally generated funds in the form of retained earnings, followed by debt, and finally external funding (Mateev, Poutziouris & Ivanov 2013). The pecking order theory predicts a negative relationship between debt ratio and profitability, because firms utilize the available internal funds as first financing source and debt as a last resort (Brendea, 2012).

According to the pecking order hypothesis, firms that are profitable and therefore generate high earnings are expected to use less debt capital than those who do not generate high earnings (Ahmad *et al.*, 2012). This is because funds used from profits do not dilute ownership. Besides, the funds obtained from debt attract interest which is an extra burden to the firm. According to the Pecking Order theory, there is no optimal debt-equity mix because there are two kinds of equity, retained earnings at the top of the pecking order and the issue of new shares at the bottom (Myers & Majluf, 1984). The Pecking Order Theory further stipulates that optimal capital structure is reached when tax advantage of borrowing (tax shield) is balanced at the margin by the cost of financial distress.

Myers and Majluf (1984) summarizes the theory by stating that there is no optimal debt-equity mix because there are two kinds of equity, retained earnings at the top of the pecking order and the issue of new shares at the bottom. Myers and Majluf (1984) claims that asymmetric information and transaction costs overwhelm the forces that determine optimal leverage in the trade-off models. For this reason, therefore, to minimize these financing costs, firms prefer to finance their investment first with internal cash flows.

POT is important as it signals to the public how the company is performing. Under adverse selection condition, firms prefer internal finance to external one. When outside funds are necessary, firms prefer debt to equity because of the lower information costs associated with debt issues. Equity is rarely issued by firms. These ideas are refined into the key testable prediction proceeding from the pecking order theory (POT) by Shyam-Sunder and Myers (1999). The POT, formalized by Myers and Majluf (1984) states that firms have a preference ranking over sources of funds for financing based on the corresponding information asymmetry costs. This theory is also relevant to this study because it assisted in determining whether an institution exhaust internally generated funds before turning to debt financing.

Resource Based View Theory

Resource Based View Theory was first advanced by Penrose (1959) who argued that a firm's superior performance is achieved when the resources are controlled by the firm. The resource-based view theory (RBT) anchors propositions of organizational resources and contends that firm behaviors depend on resources (Barney, 1991). Resource based view theory states that, firm's performance is mainly driven by a unique set of resources that are valuable, rare and difficult to imitate (Singh & Mahmood, 2014). The chosen business strategy supports organisation to best and fully exploit its core competences given the available opportunities in organizations' external environment (Griffin, 2013). The theory emphasizes internally on assets, organizational processes, capabilities, knowledge, information, and other capacities controlled by an organisation that permits the development and implementation of effective strategies (Okioga, 2012). Organizations may also be seen as bundles of human, physical and capabilities which creates sustainable competitive advantage in such a way they are rare, valuable, non-substitutable and inimitable (Ferlie & Ongaro, 2015). Moreover, firm resources are the basis for the sustainable realization of competitive advantage (Gebhardt & Eagles, 2014). The resources must have the capacity to exploit

opportunities and reduce threats in its external environment, while offering something rare, which cannot be easily imitated, or substituted by rivals within the same industry (Okioga, 2012).

The theory submits that for an organization to have competitive advantage over its competitors, it needs to prioritize the acquisition of unique resources and capabilities (Barney, 2002). The resource-based view (RBV) theory explains that valuable and rare organization resources can be difficult to replicate, and thus leading to sustained advantages in organizational performance (Alavi, Wahab, Muhamad, & Shirani, 2014). The RBV emphasizes the organization's resources as the fundamental determinant of competitive advantage. Two of RBV's assumptions are that firms within an industry or in a strategic group could be heterogeneous with respect to the kind of resources that they control. Secondly, it assumes that resource heterogeneity is long lasting and are difficult to accumulate and imitate. Theoretically, RBV addresses the fundamental question of why firms are different and how they achieve and sustain competitive advantage. Conceptually and empirically, resources are the foundation for attaining and sustaining competitive advantage and eventually high performance for the organization (Ismail, Raduan, Uli, & Abdullah 2011). The resource-based view is considered relevant to competitive advantage. RBV contributes to the understanding of competitiveness of an organization.

The RBV model assumes that an organization is a blend of organizational capabilities and the available resources. RBV also assumes that firms acquire different resources and develop unique capabilities based on how they combine and use the resources; that resources and capabilities are not mobile across organizations and that the differences in resources and capabilities are the basis of competitive advantage (Hitt, Ireland, & Hoskisson, 2013). Bridoux, (2004) argued that RBV has focused on internal resources at the expense of external factors that does influence firm performance. He opines that strategic managers, should have resources as the basis of competitive strategy. Other critics (Foss, Foss, Klein, & Klein, 2007b), argue that the practical assessment and evaluation of resources involves subjectivism, knowledge creation and entrepreneurial judgement. The RBV's critics notwithstanding, this study still finds the RBV theory applicable in the current research context.

Empirical Review

Moderating Effect of Macro Environment on the Intervening Effect of Capital Structure on the Relationship between Strategy Implementation and Performance

Moderated mediation is used to examine the extent to which the mechanism(s) by which an effect operates depends on or varies across situation, context, stimulus, or individual differences (MacKinnon, 2011; Hayes & Rockwood, 2020. Although Moderated mediation is a relatively new term, introduced into the literature in 2013 (Hayes & Preacher, 2013; Hayes, 2018a), the idea of analytically combining moderation and mediation is not new. Some of the seminal articles in mediation analysis discussed their integration (Baron & Kenny, 1986; James & Brett, 1985; Judd & Kenny, 1981). Previously, several important articles have introduced systematic approaches to

integrating moderation and mediation analysis (Edwards & Lambert, 2007; Fairchild & MacKinnon, 2009; Hayes, 2018a; Hayes, 2018b; Langfred, 2004; MacKinnon, 2008; Muller, Judd, & Yzerbyt, 2005; Preacher, Rucker, & Hayes, 2007; VanderWeele, 2015). Although Moderated mediation is becoming more common, it remains obscure or unknown to many.

The capital structure decision has become crucial for any business organization to deal with the competitive environment while maximizing returns to various stakeholder groups (Abor & Biekpe, 2005). The macroeconomic factors on capital structure of the firms is one of the confounding issues currently confronted by the financial managers as they make decisions in the monetary and real market frameworks within which firms operate where the institutional and macroeconomic conditions are expected to exert a significant influence on all of the financial and investment decisions (Muthana et al., 2013). Empirical studies from Rajan and Zingales (1995), Booth, Aivazian, Demircuc-Kunt and Maksimovic (2001), Gajurel (2006), Fan, Titman and Twite (2012) provides strong evidence that external factors do influence capital structure decisions.

Krishnan and Teo (2011) studied the moderating effects of environmental factors on e-government, e-business, and environmental sustainability. Based on publicly available archival data from 122 countries, results showed that both e-government development and e-business development had no direct effect on environmental sustainability. The results indicated human capital and public institutions positively moderated the relationship of e-government development with environmental sustainability, the relationship of e-business development with environmental sustainability was contingent on them in the negative direction. Also, while macro-economic stability positively moderated the relationship of e-government development with environmental sustainability, the relationship of e-business development with environmental sustainability was not contingent on it. The study however overlooked other intervening factors like capital structure that affect the sustainability. The current study introduced the capital structure to check on the relationship.

Oketch, Kilika and Kinyua (2020) established that that legal environment has significant moderating effect on the relationship between top management team characteristics and performance. Mbithi, Muturi and Rambo (2017) reviewed the macro environment moderating Effects on Strategy and Performance. The study revealed that all the four components of company's macro environment manifest and affect strategy-performance relationship in varying degrees. The study was limited to only four indicators of macro environment. The current study considered all the indicators of the macro environment. Ahangama, and Poo (2012) study results established that macro-economic stability moderated the relationship between eHealth development and health outcomes positively. Ogada, Achoki and Njuguna (2016) examined the moderating effect of economic growth on financial performance of merged institutions. The study results revealed that there was a significant relationship between the moderating effect of economic growth and financial performance of merged institutions. This study looked only at economic factor as a variable. The current study considered economic factor as an indicator of macro environment and not as a variable. Abdullah and Mansor (2018) study results revealed that

business environment moderates the relationship between entrepreneurial skills and small business performance.

Studies depicting business environmental dynamism to have a moderating effect have suggested that environment moderates strategy and firm performance (Ting, Wang & Wang, 2012). Dess and Beard (1984) found support for the moderating effects of environment on the strategy-performance relationship. Odundo (2012) observed that Political goodwill and support had a significant effect on the relationship between extent of implementation of strategies and their financial performance. The study manifested conceptual gap since it considered only political goodwill and support. The current study considered all the factors under macro environment. Dill (1958) found business environment as the totality of physical and social factors taken into consideration by a firm for making decisions towards high performance.

The correlation between capital mix and financial performance in firms has received considerable attention in finance literature in recent years. Muyundo, Eugene and Jinghong (2020) studied the effect of Capital Structure on the Financial Performance of Non-Financial Firms Quoted at the Nairobi Securities Exchange. The results showed that the financial performance of firms increases with the increase in the changes in debt in the capital structure. The study did not consider the moderating variable. The current study introduced the macro environment as a moderating variable. Nassar (2016) study results showed that there is a negative significant relationship between capital structure and firm performance. The moderating variable was not considered. Pham (2020) examined the effect of capital structure on financial performance of Vietnamese listed Pharmaceutical Enterprises. The study results showed that the financial leverage ratio (LR), long-term asset ratio (LAR) and debt-to-assets ratio (DR) have positive relationship with firm performance, meanwhile the self-financing (E/C) affects negatively the return on equity (ROE). However, the study was limited to Vietnamese listed Pharmaceutical Enterprises. The current study focused on Energy Sector Institutions in Kenya. Gill, Biger, and Mathur (2011) researched on the effect of capital structure on the profits of 272 services and manufacturing companies on the New York Stock Exchange between 2005 and 2007. The study used the ROE as dependent variable and the independent variables include short-term debt to total assets, debt-to-assets and the long-term debt to total assets. The research showed a positive relationship between debt and ROE and the long-term debt is inversely related to the ROE.

Salehi and Moradi (2015) study result showed that Earnings Per Share (EPS) and Tobin's Q are positively correlated with capital structure but having a negative correlation between capital structure and ROA and it is not statistically significant between capital structure and ROE. The study did not consider the moderating variable. The current study introduced macro environment as the moderating variable. Pratheepkanth (2011) study result revealed a negative relationship between capital structure and firm performance. The research evidenced that most of companies in Sri Lanka depend on debt and they pay quite a lot for the cost of using the debt. The study revealed a contextual gap since it was only limited to companies in Sri Lanka. The current study was conducted in Energy Sector Institutions in Kenya. Ul Qayyum and Noreen (2019) study results

showed that ROA was negatively correlated to the capital structure. In contrast, ROE was positively correlated to the capital structure. However, conceptual gap was revealed in this study in that it considered capital structure as an independent variable rather than an intervening variable. The current study considered the capital structure as an intervening variable.

Gul and Cho (2019) suggest that the rise in short-term debt to assets leads to increase in the risk of default whereas the increase in long-term debt to assets leads to decrease in the default risk. Pham and Hoang (2019) study results confirmed that organizational learning capability has positive effect on business performance. Doan (2014) studied the impact of capital structure on the financial results of enterprises after privatization. The study results indicated that there was negative relationship between capital structure and business results. The regression results show that long-term debt has a positive impact on ROA and ROE while short-term debt and total debt have a statistically negative impact on the business performance of enterprises after equitization measured by ROA and ROE. Trinh and Nguyen (2013) indicated that an increase in debt will reduce the performance. Bui (2017) studied the impact of financial leverage on firm performance. The result revealed that there were strong negative impacts of financial leverage measured by Long Term Debt to Total Asset (LTD) and Total Debt to Total Asset (TD) on performances of ROA and ROE, while Short Term Debt to Total Asset (STD) had insignificant effects on ROA and ROE of these firms.

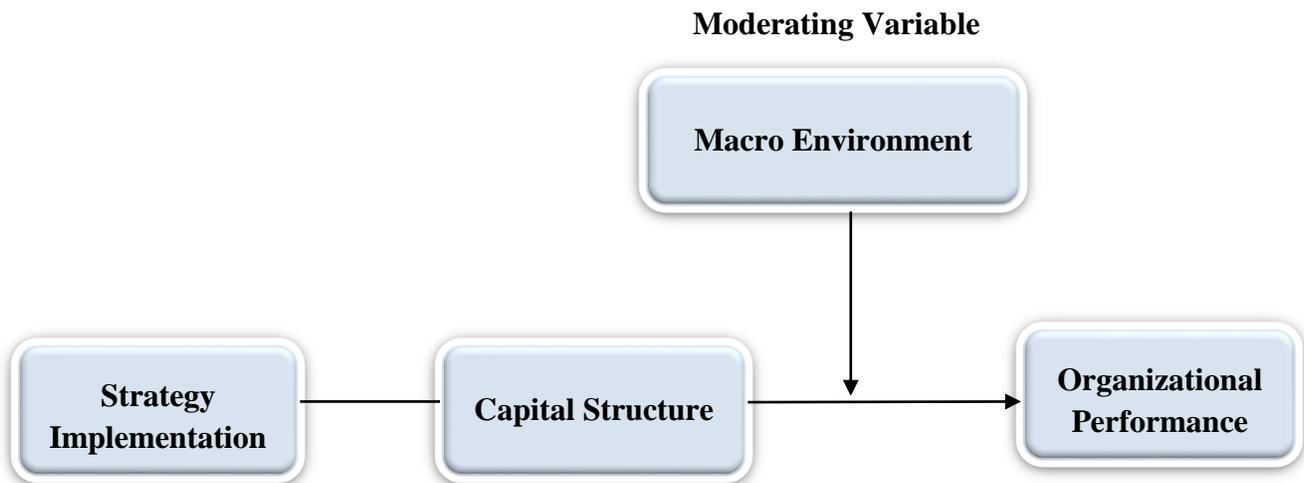
Dao and Lai (2018) study revealed that bigger firms are likely to finance more via debts thanks to their flexibility in financing sources and their ability to solve temporary liquidity problems. Dao and Ta (2020) examined the relationship between capital structure and performance and established that corporate performance is negatively related to capital decisions. Nguyen and Nguyen (2020) examined the impact of Capital structure on firm performance. The study revealed a statistically significant relationship between capital structure and firm performance. Empirically, several studies have examined the impact of capital structure on firm financial performance in sectors such as construction, plantation, or both financial and non-financial (San & Heng, 2011; Tan & Hamid, 2016; Gabrijelcic, Herman, & Lenarcic, 2013). These studies, however, mainly focus on the impact of capital structure on firm performance during financial crisis period (for instance, a study by Gabrijelcic et al., 2013) or in general (San & Heng, 2011; Tan & Hamid, 2016).

Muigai and Muriithi (2017) study revealed that debt has a negative and significant effect on financial distress of the studied companies, this effect becomes positive and significant as the size of the firm increases. The study further found that use of long term debt has a positive and significant effect among large-scale firms while short term debt is significantly detrimental. Kashif (2017) reported ROA and ROE have significant positive relationship with debt to equity and debt to asset. Rahman, Sarker and Uddin (2019) study findings established that the debt ratio and equity ratio have a significant positive impact but debt to equity ratio has a significant negative impact on ROA. The study also revealed that equity ratio has a significant positive impact but debt to equity ratio has a significant negative impact on ROE. Ayo-Oyebiyi (2019) study results

established that firm leverage, tangibility of assets and liquidity have an inverse relationship with the financial performance, while, growth and firm’s size have a positive relationship with the financial performance.

Conceptual Framework for the Study

This study investigated the moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance as presented in a diagrammatical form in Figure 1.



Independent Variable

Intervening Variable

Dependent Variable

Figure 1: Conceptual Framework

Hypothesis of the Study

This paper was guided by the following hypothesis

H0₁: There is no significant moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya.

3.1 METHODOLOGY

Research Philosophy

The study adopted a positivist paradigm which involves a statistical analysis approach. This paper adopted positivism view with the aim of assessing the moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance.

Research Design

This study employed a cross-sectional survey design. The adopted design enabled collection of data across different facilities and testing their relationships. The cross-sectional study was concerned with finding out what, when and how much of the phenomena under study (Cooper & Schindler, 2014).

Population of the Study

The study population comprised all key players under energy sector covering both public and private institutions listed in the register of Energy and Petroleum Regulation Authority February 2019. According to ERC (2019), there are 68 institutions under the energy sector. The unit of observation comprised of the C.E.O or the Head of the Institution and two members of management involved in finance, operations or technical. This is because they are at policy and strategy level. This made it three (3) respondents from each category. The researcher purposively included CEO and head of finance, technical or operation from all the institutions to select 204 employees.

Data Analysis

The study used primary data. Primary data was obtained from the selected respondents using questionnaires. Quantitative data was analysed using Statistical Package for Social Sciences (SPSS version 22). The study employed linear regression analysis to determine the relationships that exist between the dependent, the moderating and the intervening variables. A multiple linear regression model was used to determine moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance. To determine moderating effect of macro environment on the intervening effect of capital structure, Hayes and Rockwood (2020) model for moderated mediation was adopted. Pearson correlation analysis was also done to measure the strength and direction of the relationship between the dependent, the moderating and the intervening variables.

4.1 FINDINGS AND DISCUSSIONS

Response Rate

The researcher distributed 204 questionnaires, out of which 166 responded positively by filling and returning the questionnaires. This represented an overall positive response rate of 81.37 percent. The remaining 18.63 percent were unresponsive even after several follow-ups and reminders. Table 1 and 2 give results for the response rate.

Table1: Response Rate of study Population

Category	Targeted employees	Response of employees	Percent
Policy & Regulation	9	7	77.78
Distribution and Transmission	6	5	83.33
Generation	189	154	81.15
Total	204	166	81.37

Table 2: Response Rate

Category	Questionnaires distributed	Questionnaires filled and returned	Percent
Respondents	204	166	81.37

Inferential Statistics

Moderating Effect of Macro Environment on the Intervening Effect of Capital Structure on the Relationship between Strategy Implementation and Performance of Energy Sector Institutions in Kenya

To test this relationship, the following hypothesis was tested; H₀₁: There is no significant moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya. The hypothesis was tested through Stepwise regression analysis using two steps. The first step involved testing the influence of capital structure and macro environment on performance. The second step involved introduction of the interaction term through stepwise regression analysis. Regression results for the influence of macro environment on the relationship between capital structure and performance are contained in Table 3.

Table 3: Moderated Mediation of Capital Structure

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.707 ^a	.500	.494	.31227	.176	57.245	1	163	.000
2	.734 ^b	.539	.530	.30080	.039	13.678	1	162	.000

a. Predictors: (Constant), Capital Structure and Macro Environment

b. Predictors: (Constant), Capital Structure and Macro Environment, Interaction

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.883	2	7.941	81.438	.000 ^c
	Residual	15.895	163	.098		
	Total	31.778	165			
2	Regression	17.120	3	5.707	63.074	.000 ^d
	Residual	14.657	162	.090		
	Total	31.778	165			

a. Dependent Variable: Performance

b. Predictors: (Constant), Capital Structure and Macro Environment

c. Predictors: (Constant), Capital Structure and Macro Environment, Interaction

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	4.316	.024		178.069	.000	4.268	4.364		
	Capital Structure	-.276	.063	-.290	-4.364	.000	-.401	-.151	.693	1.443
	Macro Environment	-.618	.082	-.503	-7.566	.000	-.779	-.457	.693	1.443
2	(Constant)	4.343	.024		177.544	.000	4.295	4.391		
	Capital Structure	-.199	.064	-.209	-3.085	.002	-.326	-.072	.620	1.613
	Macro Environment	-.552	.081	-.449	-6.835	.000	-.711	-.392	.659	1.518
	CS_ME	-.297	.080	-.231	-3.698	.000	-.456	-.139	.730	1.370

a. Dependent Variable: Performance

Analysis in Table 3 shows that model 1 is significant (p-value = 0.000 < 0.500, R² = .500) indicating that capital structure and macro environment collectively explain 50 percent of variation in performance. In model 2 when interaction term was introduced, coefficient of determination (R²) improved from .500 in model 1 to .539 in model 2. This resulted in a significant R² change of .039 with p-value=0.000<0.05. The findings further showed that F-value for both models were high and significant (F=81.438, p-value = .000<.05 for model 1; F=63.074, p-value = .000<.05), thus the two models were in overall significant. Individually in model 1, capital structure ($\beta = -.276$, $t = -4.364$, p-value = .000<.05) and macro environment ($\beta = -.618$, $t = -7.566$, p-value = .000<.05) were significant. This facilitated analysis in step two. In model two when the interaction term was introduced, the results ($\beta = -.297$, $t = -3.698$, p-value = .000<.05) indicated a significant relationship, thus macro environment moderates the relationship between capital structure and performance (moderated mediation). Therefore, it was concluded that, the introduction of macro environment had an enhancing moderating effect on the relationship between capital structure and performance. Based on the results of the test, the hypothesis that there is no significant moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya was rejected and the alternative hypothesis accepted.

The predictive model become; $P = \alpha + \beta_1 CS + \beta_2 ME + \beta_3 CS.ME + \epsilon$

Where: P is Performance

CS is Capital structure (mediating variable)

ME is Macro environment (Moderating variable)

CS.ME is Capital Structure and Macro Environment (interaction)

ϵ = Error term

β = the beta coefficients of independent variables after the regression analysis results, the model became $P = 4.343 - .199 CS - .552 ME - .297 CS.ME$

The study revealed that there was a statistically significant moderating effect of macro environment on the intervening effect of capital structure. The results show that jointly the variables explain 53.9 percent of the variations in performance (R₂ = .539). The results show that capital structure and macro environment collectively explain 53.9 percent of variation in performance. The joint effect was thus higher and significant compared to the individual effect of individual variables therefore rejecting the hypothesis. A hypothesis stating there is no significant moderating effect of macro environment on the intervening effect of capital structure on the relationship between strategy implementation and performance of energy sector institutions in Kenya was formulated and tested. The hypothesis was tested using stepwise regression analysis. The research findings showed that there was a statistically significant moderating effect of macro environment on the intervening effect of capital structure.

The findings also revealed that when the interaction term was introduced, indicated a significant relationship, thus macro environment was found to moderate the relationship between capital structure and performance (moderated mediation). Therefore, it was concluded that, the introduction of macro environment had an enhancing moderating effect on the relationship between capital structure and performance. Hence from the findings, firms ought to be keen on monitoring changes in the macro environment factors in order to formulate and adopt effective capital structure strategies for optimum firm performance.

5.1 CONCLUSION

The study has imperially investigated and concluded that macro environment moderates the intervening effect of Capital structure on performance of the 68 energy sector institutions in Kenya. The study revealed that macro environment has an enhancing moderating effect on the intervening effect of capital structure on performance. Attention should be given to macro environment factors such as political influence and activities, economic factors, socio cultural factors including stakeholders' expectations and demands, legal and regulatory conditions including tariff, taxes, land tenor and terms of usage, ecological demands and emerging trends and opportunities in technology. These factors will influence availability, accessibility, cost, terms and conditions of debt capital financing. Appetite of Equity Investors in the Energy Sector will also be influenced by these environmental factors since they impose additional cost or risks and may also impact the level of return on their investment.

Organizations which operate in a stable macro environment are expected to use more debt financing rather than equity. The reason is cost of debt financing will be lower than cost of equity considering the positive tax effect of interest compared to dividend. On the contrary, when the company operates in unstable macro environment condition, funding through equity should be used to reduce the increased transaction costs for the increased risk. Company ability to adapt to the changing macro environment, such as political influence, stakeholder management, adoption of appropriate technology and ecological environment compliance, market challenge or governance changing the structure, is the ultimate answer to generate organization efficiencies to achieve desired company performance. Finally, the study concluded that there is correlation between the macro environment and the various indicators of performance. The level of correlation was found to correspond to the explanatory power of macro environment on organizational performance. The anchor theory is significant to Energy sector institutions as will enable the institutions have a new lens on how to harmonize the business environment, the financial decisions and the customers' needs and also evaluate how these affect the systems that make up the company. When analyzing business systems and environment, open-system theory has practical advantages needed by the organization towards achieving improved business efficiency.

6.1 RECOMMENDATIONS

Capital structure contributes immensely to the performance of Energy Sector Institutions in Kenya. the study recommends that policy guidelines should be developed to support institutions in Energy sector access capital, build capacity and adopt appropriate technology and earn a fair return on

their investment. Energy sector is a capital-intensive sector requiring a lot of funding in order to deliver projects whether in power generation, transmission or distribution, there is therefore need to develop policies which support capital flow into this sector. Governments should provide an enabling environment that attracts Equity capital and debt financiers to Energy sector. One way is to mitigate financial risks through Government support in the form of partial risk guarantee, stable foreign exchange and interest rates, tariffs that guarantee competitive and fair returns. There is also need to ensure stable revenue and cash flows through tariff structures encapsulated contractually within power purchase and other agreements. Examples include capacity-based take or pay tariff with appropriate time-based escalation factors. Further, the institutions should enhance policies that promote harmonious working relationship among all stakeholders.

The study has demonstrated that macro environment moderates the intervening effect of capital structure, it is therefore imperative that focus be directed on macro environment factors to support Energy sector. Political support, economic growth, harmonious and supportive social- legal environment and promotion of appropriate technology is critical for superior performance. Policy makers should enhance political support and develop enabling laws, policies and regulations which facilitate macro environment stability for superior performance by Energy sector institutions. The investors in the sector must safeguard against high cost of capital and terms and conditions attached to debt capital. Finally, it is prudent for organizations' management to be keen on current and trending issues, emerging technologies, new legal regulations, inflation, customer behavior, competition, supplier challenges, sponsor demands, political shifts among other issues when sourcing for funds and also when making crucial financial decisions. There is also need to adopt new technologies and renewable energy sources of power generation that are environmentally friendly.

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