

CAPACITY BUILDING STRATEGY AND THE PERFORMANCE OF COMMERCIAL STATE-OWNED ENTERPRISES IN KENYA

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ABSTRACT

The state owned enterprises in Kenya have recently recorded poor performance forcing the government to bail them. This has continued to put pressure on the country's fiscal landscape. To reverse the negative trend, the government implemented capacity building strategies. However, to the best of my knowledge, there is no empirical evidence that supported the initiative. This study therefore seeks to investigate the effect of capacity building strategies on performance of state owned enterprises in Kenya. Descriptive survey style of research design was adopted for the study using questionnaire to obtain primary data. Primary data was drawn from a census sample size of 48 Commercial state owned enterprises, where the unit unit of analysis included two employees from each CSE comprising of one manager and one head of departments involved in the transformational strategy initiation and implementation for at least the last five years. The responses were harvested from 81 of the respondents reflecting 84.4% response rate. Using Ordinary Least Square, the findings revealed that implementation of capacity building strategies lead to an increase in performance of state owned enterprise by a factor of 0.359. The study concludes that a continuous improvement aimed at enhancing capacity building is enough to enhance performance in the state owned enterprise. The study therefore recommends that the state adopts and fully implements the capacity building strategy on Commercial State Enterprises as a means of boosting their overall performance.

Keywords: *Capacity building strategy, Commercial state-owned Enterprises, continuous improvement and Performance*

INTRODUCTION

In recent years, the commercial State-Owned Enterprises (SOEs) in Kenya have experienced significant poor performance. This poor performance prompted the government to implement various reforms with an aim of reversing the negative performance (Republic of Kenya, 2022).

The government evaluation of the financial position of commercial state owned enterprises in 2021 showed that out of 18 enterprises, only four of them were profitable. The four included the Kenya Pipeline Company Limited, Kenya Ports Authority, Kenya Electricity Generating Company (KenGen) and Kenya Airports Authority. The rest commercial state owned companies including Kenya Power and Kenya Railways Corporation were either making losses or were operating below cost recovery levels (Wanyama and Mutugi, 2023). Further making the situation worse, Nyongesa and Jagongo (2024) showed the enterprises were relying on short-term debt which had a negative effect on financial performance of the enterprises. These financial challenges have not only strained public resources but also hindered the realization of positive economic growth, prompting the government to consider restructuring or divesting underperforming SOEs. The poor financial performance of the commercial state owned enterprises posed significant fiscal risks due to their debts and overreliance on government support.

The government in responding to the poor performance of the enterprises embarked on a series of reforms. One of the notable reforms was capacity building. The government implemented this strategy through targeted strategies such as skills enhancement, leadership development and organizational restructuring. The Kenya School of Government has played an important role in the capacity building initiative by offering training programmes with an aim of enhancing management competencies and public service leadership. The school was established in 2012 under the Kenya School of Government Act of 2012 with main aim of developing leadership and managerial skills that are essential for efficient functioning of state owned enterprises. Although the government has made effort to reverse the negative performance of the state own enterprise by implement the capacity building strategy, there is no empirical study linking the two variables to the best of my knowledge. The available studies investigating the role of capacity building on state owned enterprises are narrow since they focus on one enterprise. One of such studies is Muhia and Juma (2024) which examines the effect of capacity building strategies on operational efficiency of Kenya's Geothermal Development Company Limited. It is based on this drawback that this study

sought to investigate the role of capacity building on state owned enterprises in Kenya. The study used data collected from 81 state owned enterprises. The Ordinary least square was used to carry out the estimation. The regression results showed that the embracing capacity building strategies leads to an improvement in performance of the state-owned enterprises by a factor of 0.359. The rest of the paper is organized as follows. Section II shows the empirical review section. This is followed by methodology section. The fourth section presents the results and end with conclusion and recommendation

EMPIRICAL LITERATURE REVIEW

A study by Kiptoon (2024) investigated the role of capacity building on the performance of state owned enterprises Kenya's public construction industry. On using McKinsey's 7S framework, the study established that both soft elements for example skills showed a positive correlation with performance of organization. Specifically, staff competencies and leadership styles were found to have a positive effect in enhancing operational success. In another study, Agaba (2023) investigated the effect of organizational capabilities on performance of commercial state corporations in Kenya. The research studied the role of managerial capability on the performance of state own enterprises. The study employed a descriptive cross sectional design and surveyed 150 respondents across 50 commercial state corporations. The study's result showed that organizational capabilities had a positive and significant coefficient. This implied that organizational capability was important determinant of state owned corporations.

Specifically, the innovative capabilities were associated to enhanced service delivery, while managerial capabilities were linked to improved strategic execution. The resource and coordination capabilities contributed to the operational efficiency and timely decision making. In another study, Kirui (2016) had earlier studied the role of capacity building on state owned enterprise with focus on the electricity sub-sector. On using ordinary least square, the study revealed that leadership style and staff skills had a significant and positive effect on performance of state owned enterprises.

Salah, Ombui, and Shale (2023) studied the effect of employee relations on the performance of commercial state corporations in Nairobi City County, Kenya. The study investigated the role of two main aspects namely training and development and work-life balance. Using Ordinary least square method, the study established a positive and significant effect of capacity building on the

performance of state owned enterprises. Specifically, the training and development ($\beta = 0.307$) and work-life balance ($\beta = 0.338$) had a significant and positive effect on organizational performance.

METHODOLOGY

The study adopted a descriptive research design, since it helps describe the characteristics of a population which is being studied, which in this case it's the State is owned enterprises. A descriptive research is a process of collecting data in order to answer questions concerning the current status of the subjects in the study (Cooper & Schindler, 2014). There are two types of descriptive studies; the longitudinal which observe phenomenon over a period of time and cross sectional which observes phenomenon only once and in a particular time. Due to time constraint, the study adopted a cross sectional research approach. The descriptive research design was used since the study gathered quantitative and qualitative data that describe the nature and influence of transformational strategies identified in this study, on the performance of state owned enterprises in Kenya.

The study adopted census sampling because the number of state owned enterprises was 96 and therefore could easily be investigated by the researcher. Data for this study were collected through primary sources. To collect the data, structured questionnaire was distributed to the management of the 96 state owned enterprises in Kenya. The questionnaire was fully checked, validated and its reliability capacity measured before it delivered to the study area for responses. The primary data collected through questionnaire was analyzed using Statistical package for social sciences (SPSS version 25) and the stated research hypotheses were tested using regression inferential statistical tools. The regression model used is shown in equation 1.

$$perf_i = \beta_0 + \beta_1 CBS_i + \mu_i$$

Where perf represents performance of a state-owned enterprise, CBS represents capacity building strategy and μ represents the error term.

FINDINGS AND DISCUSSION

A total of 96 questionnaires were distributed during field work for the purpose of data collection. At the end of the exercise, 81 of questionnaires returned translating to a response rate of 84.4%.

According to Mugenda (2003) the response rate (RR1) of 70% is considered feasible. These results as shown in table 1.

Table 1: Response Rate

Questionnaires	Frequency	Percent
Responded	81	84.4%
Un-responded	15	15.6%
Total	96	100.0%

Factor Analysis

Factor analysis is a statistical technique used to identify a relatively small number of underlying dimensions or factors, which can be used to represent relationships among interrelated variables (Bryman, 2012; Garg, Kothari, Netrapalli & Sherif, 2021). The technique is often used to measure variables that cannot be measured directly, to summarize large amounts of data, and to develop and test theories. In this study, factor analysis was carried out in order to test for the validity of the research instrument.

Adequacy of sample size was determined using the Kaiser-Meyer Olkin (KMO) measure of sampling adequacy. According to Yin (2014) KMO is a statistic used to examine and justify the appropriateness of application of factor analysis, in other words KMO is used to examine whether the data collected is adequate and appropriate for inferential statistical tests such as the factor analysis, regression analysis and other statistical tests. The KMO statistic varies between 0 and 1. Accordingly, the value of 0 implies that the sum of partial correlations is large relative to the sum of correlations, indicating diffusion in the pattern of correlations hence factor analysis is likely to be inappropriate. A value close to 1 indicates that patterns of correlations are relatively compact and so factor analysis should yield distinct and relative factors.

The study employed KMO and Barlett's Test of sphericity for measurement of sampling adequacy. Barlett's Test of sphericity is usually used to demonstrate the strength of relationships among variables of interests in a scientific study. It tests the null hypothesis that the correlation matrix is an identity matrix. This means all off-diagonal elements are zero and the diagonal elements are equal to one (Sarstedt & Mooi, 2011). According to Burns and Burns (2008) and Kaiser (1974), the value of KMO must be greater than 0.5 for a data set to be considered as adequate and appropriate for statistical analysis. The following sections outline construct validities for various research variables.

The performance of state-owned enterprise was reviewed for reliability and factor analysis as shown in Table 2 below, it was measured by the eight items; Transformation Strategy had a Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of 0.652, which was above the threshold of 0.4, (Taherdoost, 2016). Barlett's test of sphericity was significant ($p < 0.05$), showing that there were sufficient relationships among the variables to investigate. A Cronbach's coefficient alpha of 0.775 transformation strategy indicated that the measuring scale was reliable.

Table 2: Factor loadings for performance of State-Owned Enterprise

Construct	Item	Cronbach's Alpha	KMO	Bartlett's Test (p-value)	PCA Loading	Variance Extracted (%)	Items Deleted
Performance Contracting Strategy	P1	0.775	0.652	< 0.001	0.491	83.784	None
	P2				0.418		
	P3				0.455		
	P4				0.091		
	P5				0.655		
	P6				0.273		
	P7				0.091		
	P8				0.473		

Capacity Building Strategy was reviewed for reliability and factor analysis as indicated in Table 3 below, it was measured by the eight (8) items; Capacity Building had a Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy of 0.6, which was above the threshold of 0.4, (Taherdoost, 2016). Barlett's test of sphericity was significant ($p < 0.05$), showing that there were sufficient relationships among the variables to investigate. A Cronbach's coefficient alpha of 0.713 for capacity building strategy which indicated that the measuring scale was reliable.

Table 3: Factor loadings Capacity Building Strategy

Construct	Item	Cronbach's Alpha	KMO	Bartlett's Test (p-value)	PCA Loading	Variance Extracted (%)	Items Deleted
Capacity Building Strategy	C1	0.713	0.600	< 0.001	0.211	94.82	None
	C2				1.055		
	C3				2.255		
	C4				1.455		
	C5				1.800		
	C6				2.164		
	C7				3.164		
	C8				3.018		

Regression Results

The study tested the following hypothesis.

H0: There is no significant relationship between Capacity Building Strategy and Performance of Commercial State Owned Enterprises in Kenya.

The study tested the hypothesis if there exist a significant relationship between Capacity Building Strategy and Performance of State Owned Enterprises. The regression model summary as shown in Table 4 revealed that the adjusted R-square (R^2) was 0.359 which simply means that 35.9 % of the variation in performance of the state-owned enterprises in Kenya is determined by capacity Building Strategy.

Table 4: Model summary for Capacity Building Strategy

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.267 ^a	0.471	0.359	7.35976

a. Predictors: (Constant), Capacity Building Strategy

The Analysis of Variance (ANOVA) results are as shown in Table 5. As the results depict, the F-statistic for the model was 6.053 at a significance level of $0.016 < 0.05$. It can be concluded therefore

that capacity building Strategy and performance of the state owned enterprises are significantly related. We therefore fail to reject the null hypothesis stating evidently that there is a significant relationship between capacity Building and performance. The ANOVA test results are presented in Table 5.

Table 5: ANOVA for Capacity Building Strategy

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	327.873	1	327.873	6.053	.016 ^b
	Residual	4279.115	79	54.166		
	Total	4606.988	80			

a. Dependent Variable: performance

b. Predictors: (Constant),Capacity Building

Taking into account of the regression coefficients for the model are as shown in Table 5, it is evident that the Beta coefficient for the model was 0.359 with a p-value (0.016) less than 0.05. It therefore be verified that Capacity Building Strategy and Performance relationship is statistically significant. The regression coefficients of the model are presented in Table 6.

Table 6: Regression Coefficient for Capacity Building Strategy

Model		Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
1	(Constant)	16.284	3.631		4.485	0.000
	Capacity building(X ₃)	0.359	0.123	0.267	2.460	0.016

a. Dependent Variable: performance

b. b. Predictors: (Constant),Capacity Building

The model was represented as below

$$perf_i = 16.284 + 0.359CBS_i$$

The model shows that a unit increase in Capacity Building Strategy would increase performance by a factor of 0.359.

Discussion of Findings

This study sought to investigate the effect of capacity building strategy on the performance State owned enterprises in Kenya. The study had a one research hypothesis underpinning. The hypothesis stated that capacity building strategy does not have a significant effect performance of state owned enterprise in Kenya; findings revealed a coefficient of 0.359, and indicated that implementation of capacity building lead to increase in performance of the state owned enterprise by a factor of 0.359. The study corroborated Kiptoon (2024) and Agaba (2023) who concluded that implementation of capacity building strategy has higher significant effect on the performance of firms in Kenya.

CONCLUSION

This study makes a conclusion that capacity building has a significant effect on state owned enterprise. Consequently, the study recommends that capacity building strategy should be implemented to improve performance of commercial state owned enterprises in Kenya.

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