# The Predictive value of contextual factors on corporate performance in Kenya

**Abstract:**

Corporate performance is of utmost importance because business organizations exist to optimize this functional objective. In spite of this importance, the findings of the studies on performance remain inconclusive (Ramanujan and Varadarajan, 1989). Various reasons have been advanced for the inconclusive findings including methodological flaws, ignoring organizational characteristics in performance relationships (Hill, 1994), and contextual application of models (Aosa, 1998). This has led to emergence of two complementing and at times conflicting schools of thought. One school led by Industrial Organizational Economists, contends that corporate performance is related to broader economic performance and differences in performances are a reflection of the context in which firms operate (Nelson, 1994). On the other hand, Evolutionary Theorists argue that performance arises from choices made by the firms and differences in performance arise from the interplay of firm capabilities in pursuit of earning rents. The objective of this study was to determine the influence of the contextual factors on corporate performance in Kenya. Kaplan and Norton's Balanced Score Card (BSC) model was used to measure corporate performance. Empirical literature review on studies across Africa was used to build a framework of contextual factors. These factors included Infrastructural, Distribution Systems, Political and Legal, Economic factors, Social- Cultural, Corruption and Security factors. A census survey of the 56 companies quoted on the Nairobi Stock Exchange (NSE) was conducted. To achieve the objective both primary and secondary data were collected from the population of interest. Primary data was collected vide a structured close ended 5 point Likert type questionnaire administered to the CEO. Secondary data on financial measures were collected from NSE and Capital Markets Authority (CMA) for an average of five years from 2002 to 2006. Validity was computed using factor analysis while composite reliability of constructed indices was tested using cronbach alpha. Exploratory principal component factor analysis extracted four components from the twenty seven items used to assess contextual factors. The extracted factors were Security, Political Risk, Corruption and Economic factors in this order of importance indicated by factor loadings. Linear regression however, revealed weak and insignificant negative effect of extracted factors on corporate performance, only accounting up to 7 % variation in corporate performance ( $R2 = 0.07$, adj. $R2 = -0.027$, $F = 0.720$, $P = 0.584$) with predictive power completely lost when adjustment for sample size and degrees of freedom is effected. The study therefore, appears to lend credence to the evolutionary theory that postulates firm performance is largely influenced by strategic capabilities, by demonstrating the limited influence of contextual factors on corporate performance. Further studies should therefore seek to determine the effects of strategic capabilities and contextual factors in integrated models.