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THE MODERATION - MEDIATOR EFFECT ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND ENTERPRISE RISK MANAGEMENT ADOPTION BY COMMERCIAL STATE CORPORATIONS IN KENYA

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ABSTRACT

Background of the Study: In today's dynamic and competitive business environment, organizations are adopting the enterprise risk management framework to address the inadequacies in risk management to ensure realization of business objectives. In Kenya, the adoption of Enterprise Risk Management (ERM) by State Corporations is a mandatory requirement and yet the information on levels of adoption amongst Commercial State Corporations most of which continue to experience poor performance due to weak governance is scanty.

Objective of the study: This study sought to determine the moderation - mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

Methodology: This study adopted a positivist research philosophy and cross-sectional survey design approach. Target population comprised all the Commercial State Corporations in Kenya listed in the register of State Corporations Advisory Committee (SCAC) as at January 2021. The unit of analysis was the 52 Commercial State Corporations and unit of observation was top management of each entity. Census method was used and all members of the top management team were enumerated as respondents. The study achieved a response rate of 76% with the return of 276 questionnaires. The study used primary data, which was collected through structured questionnaires. The descriptive and inferential statistics was employed in the analysis. The Statistical Package for Social Sciences (SPSS) was used in regression modeling for prediction and causal inferences between study variables.

Results and Findings: The moderation-mediator effect on the relationship between transformational leadership and enterprise risk management adoption was found to be significant.

Reccommedations: The study recomended that mainstreaming and alignment of internal polices of state corporations to external regulations to enhance enterprise risk adoption.Good governance is also recommended. Internal policies should be reviewed periodically to incorporate changes in external regulations.

Keywords: *External Regulation, Transformational Leadership, Corporate Strategy, Enterprise Risk Management Adoption & Commercial State Corporations*

1.1 Introduction

The discourse on the adequacy of risk management is both a global, regional and national issue. Togok, Isa and Zainuddin (2016) analyzed the situation in East Asian and concluded that, one tenth of the 800 listed companies on Bursa Malaysia were faced with poor corporate governance and poor risk management. Fraser and Simkins (2010) contend that the crisis in the US financial institutions that caused the ripple effect in global markets in 2008 was blamed on failures related to risk management in financial institutions. Golshan and Rasid (2012) analyzed public listed companies in Malaysia and found out that there exist many barriers for designing a comprehensive approach to managing risks in public firms. Demidenko and McNutt (2010) arrived at conclusion that whereas companies in Australia are more mature than Russia on governance levels, international challenges in risk governance like establishing linkages between risk framework, enterprise value and strategic planning were evident. Fadun (2013) asserts that business enterprises in Nigeria have not understood and embraced enterprise risk management. In Kenya, state corporations have not operated at expected levels in the terms of performance due to weak governance and other external factors (Republic of Kenya, 2013).

Operating in today's dynamic and competitive business environment organisations are faced with ever evolving risks as they implement their strategic objectives in order to create value (Golshan & Rasid, 2012). Following a number of highly publicized business failures, scandals, and prevalence of fraudulent practices in the 1990s and early 2000s attention was drawn to the adequacy of risk management in organisations (McShane, Nair & Rustambekov, 2011). This triggered the development of new risk management standards and processes such as the enterprise risk management construct as developed by the committee of sponsoring organisations of the treadway commission (COSO, 2004).

A transformational leader focuses on transforming others to help each other, to look out for each other, to be encouraging and harmonious, and to look out for the organisation as a whole. In this leadership style, the leader enhances the motivation, morale and performance of his follower group (Ghasabeh, Soosay & Reaiche, 2015). Transformational leadership gives more attention to leadership elements like charisma and feelings. The organisation at corporate level must be cognizant of the interrelated risks that the entity faces, namely; operational, strategic, business, financial, people, regulatory and reputation (Ben-Amer, Boujenoui & Zeghal, 2014). The enhancement of external regulations over the past decade is attributed to increased adoption of Enterprise Risk Management across all industries (Golshan & Rasid, 2012). Regulations require alignment and compliance, in many countries' regulations have pressed firms to improve risk management. However, the effect differs on intensity depending on whether it is mandatory or optional (Paape & Spekle, 2012).

Enterprise Risk Management-Integrated Framework is a process, effected by an entity's board of directors, management, and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

Studies use several synonyms for enterprise risk management such as integrated risk management, holistic risk management, global risk management and strategic risk management (Fraser & Simkins, 2010). To successfully adopt ERM management, one has to be in a suitable position to evaluate varied strategic directions by considering the combined risks within many scenarios to create a potential for risk opportunities and to manage risk within the stakeholders' risk appetite (Hoque & Ntsele, 2018). All of the identified risks inclusively aim to support the strategic direction of the enterprise. ERM might identify risk opportunity across multiple silos of the enterprise in order to enhance and maximise the value of the company's return when risk appetite is well managed by balancing the performance objective with recognizing risks.

Commercial State Corporations in Kenya face corporate governance challenges that affect their effectiveness. To address the challenge of governance in state corporations, the government of Kenya developed Treasury Circular NO 3 / 2009 guidelines for the development and implementation of institutional risk management framework in the public sector (Republic of Kenya, 2009). The Mwongozo code of conduct was also developed to enhance effectiveness of boards, transparency, accountability, risk management and ethical leadership in state corporations (PSC&SCAC, 2015).

1.2 Statement of the Problem

Dismal and poor organisational performance has been attributed to inadequate risk management. The global financial crisis of 2008 prompted organisations to rethink their risk management approach and espouse Enterprise Risk Management which is a holistic approach toward managing corporate risks, aligns risk management to business strategy, builds confidence of stakeholders and enhances corporate governance (Kerstin, Simone & Nicole, 2014). The existence of a holistic risk management framework in an entity provides reasonable assurance about the realization of company objectives. It is for these reasons that the government of Kenya has made the adoption of integrated risk management approach in state corporations mandatory to enhance corporate governance. Despite the advantages associated with ERM, studies have shown that few corporates have adopted ERM. Fadun (2013) asserts that despite the benefits of risk management, not many enterprises maintain ERM in Nigeria. According to Togok *et al*. (2016), the increased adoption of ERM in Malaysia is associated with the adoption of Bursa Malaysia Guidelines in 2013 that required integrated risk management and reporting.

In Kenya, the government has been mainstreaming good corporate principles in Commercial State Corporations principally to enhance existing processes and controls to address incidence of corruption, imprudent utilization of resources and overall performance. In addition, the government formulated of the code of governance for State Corporations referred to as *Mwongozo* with clear measures aimed at addressing matters of effectiveness of the Board, transparency, accountability, risk management and ethical leadership in state corporations (Republic of Kenya, 2016). However, the information on ERM adoption and levels of maturity in state corporations is scanty. Methodologically, some studies revealed knowledge gaps. Xiao, O'Neill and Mattila (2012), Irma and Yvonne (2019) used secondary data in their research on enterprise risk management. The study by Paape and Spekle (2018) was a critical theoretical review. Conceptually, while corporate strategy (as an independent variable) has been found to positively impact on ERM (Ben-Amar *et al*, 2018), however empirical literature on the intervening role of corporate strategy and the moderating effect of external regulation in the relationship between transformational leadership and enterprise risk management adoption is yet to be established. Studies reviewed in this research reveal conceptual and theoretical gaps that exist in relation with the moderation-mediator moderator of external regulation and corporate strategy in the relationship between transformational leadership and ERM adoption (Alqatawenh, 2018; Togok *et al*., 2016; Faisal *et al*., 2021). Contextually, several studies undertaken in Kenya have researched on adoption of ERM in state corporations without bringing out empirical evidence on transformational leadership style and enterprise risk management adoption by commercial state corporations in Kenya (Kamau *et al*., 2018; Njagi &Njuguna, 2017; Ogeng'o & Omar, 2015; Otieno, *et al*., 2020; Yegon *et al*., 2014).

1.3 Objective of the Study

To determine moderation-mediator effect on the relationship between transformational leadership and enterprise risk management adoption by commercial state corporations in Kenya.

1.4 Hypothesis of the Study

H_0: There is no significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

2.0 Literature Review

2.1 Theoretical Review

2.1.1 Enterprise Risk Management Theory

The Enterprise Risk Management theory was founded by the Committee of Sponsoring Organization of Treading Commission (COSO) in 2004. COSO is credited with founding the Enterprise Risk Management theory through the publication of COSO ERM framework of 2004 (Jankensgård, 2019). The framework provides the approach for a holistic or integrated risk management in entities. The role of risk management is to minimize the volatility in the earnings, the financial distress cost involved and assist in the decision making in the organisation (Paape & Speklè 2012). Organisations engage ERM to assist in evading and managing under performance and in ensuring their thriving and survival. ERM practices plays a critical role in ensuring that the financial distress cost associated with functional or non- functional activities within the firm are reduced or eradicated (Khan *et al*. 2016).

Lack of resources has been a hinderance for firms to engage in ERM practices (Brustbauer, 2016). The internal control system within the firm depends on ERM mechanisms in managing different types of risks. ERM enables the firm to establish unique strategy to counter losses and discover available opportunities (Annamalah *et al*. 2018). The ERM framework was revised in 2017 to integrate risk management in strategy setting process and performance management in organisations (COSO, 2017). ERM is significant for organisations in ensuring smoothening financial volatility and reducing the financial crises that can befall the organisation, hence ensuring enhanced performance (Ashraf *et al*. 2017).

The Board of Directors, on behalf of shareholders, adopts risk governance to deal with the agency problem of risk management. As discussed extensively in this study, managers are prone to undermanage one category of risks (low probability-high impact risks) and over-manage another category of risks (high probability-high salience risks), which reduces the expected mean of future cash flows (Hossain, Salama & Mitra, 2019). Risk governance is a set of mechanisms that counteract the incentives and behavioral biases that lead to these problems. The Board of Directors adopts risk aggregation to deal with the information problem of risk management. Risk aggregation is a set of mechanisms used to ensure that information about risk is aggregated and processed in such a way that it supports the task of assessing and managing the firm's total risk-return profile (Eckstein, Kupper & Pohl, 2020). ERM is related to two optimization problems. When risk governance is applied successfully the firm has an optimized portfolio of business risks; namely risks that arise as a natural consequence of doing business. The agents take risk management decisions unaffected by conflicts of interests and behavioral biases, thus maximizing the expected mean of future cash flows. Using the information made available through risk aggregation, the firm then optimizes its total risk-return profile (Raguenet & Diene, 2019).

This paper is anchored on enterprise risk management theory as the key elements of the theory relate closely to the constructs of this study. The ERM theory is premised on the fact ERM as a process is championed by top leadership, applied in a strategic setting, involves managing of risks and provides reasonable assurance about the realization of entity objectives. The foregoing propositions of the theory, point to a linkage to the four constructs of the study, namely, it alludes to roles of leadership (independent variable), corporate strategy(mediator) and a process often regulated(moderator) for purposes of risk mitigation to achieve entity objectives within the context of ERM adoption (dependent variable).

2.2 Empirical Literature Review

Hayes and Preacher (2013) avers that although moderated mediation is becoming more common, it remains obscure or unknown to many (Hayes & Rockwood, 2020). Hayes' process approach was utilized to analyze the moderated mediation model. El-Dalabeeh and ALshbiel (2019) study found out that there was a significant relationship between ERM and performance. The study conceptualized ERM as a mediator variable between balanced scorecard (BSC) and organisational performance. The study results indicated that using ERM and BSC led to significant improvement in firm performance. Moreover, the results also indicate that ERM positively mediate the relationship between BSC and organisational performance.

Agustina and Baroroh (2016) study results indicated a positively although insignificant relationship between ERM and firm value. The study used Tobin's Q to measure the firm value. Multiple regression was used in analyzing data. The study findings further indicated that companies that do not diversify internationally poses positive effect on the value of the firm. Path analysis was used to analyze data. Primary data was used. Purposive sampling was used to obtain the sample size. The relationship was mediated by the financial performance. Akpoviroro and Owotutu (2018) looked at the impact of external business environment on enterprise risk management adoption. The study used questionnaire to collect data. Multiple regression was used to analyse the collected data. The study results indicated that the external business environment had impact on enterprise risk management adoption.

Ben-Amar *et al*. (2014) study results showed significant correlation between corporate strategy and enterprise risk management. The study however failed to introduce the moderating and intervening variables. The current study introduced the external regulation and corporate strategy as the intervening and moderating variables respectively. The study will assess the effects of intervening and moderating variables on the relationship between transformational leadership on enterprise risk management adoption.

Hernandez-Perlines, *et al*, (2016) undertook a study that examined how competitive strategy mediates the effects of international entrepreneurial in international performance. The research studied the family owned businesses located in Spain. Competitive strategy has a mediating effect on the relationship between international entrepreneurial orientation and international performance. The mediating effect increase the capacity of the model to explain the explained variance of international performance up to 62.9% (Hernandez-Perlines, *et al*, 2016). Ireland *et al*. (2009) contended that a company's competitive advantages increasingly rely on the organizations' Corporate Entrepreneurship strategy. Therefore, this study will investigate the link between transformational leadership and organizational behavior such as corporate entrepreneurship.

Muralidhar (2010), using six case studies, explored the status of ERM implementation for selected entities in the oil and gas industry in six countries. The researcher identifies key determinants of ERM adoption, explores challenges to ERM implementation and recommends an implementation plan to establish a robust ERM framework specific to entities in the Gulf region. He uses an inductive research approach based on semi-structured interviews by asking open-ended questions (who, why, what and how) to explore participants' answers to research objectives. The researcher uses the data collected to position organizations in the ERM maturity model according to their ERM implementation progress as under construction, partial or a complete ERM framework in place. The research findings reveal that ERM means different things to oil and gas companies in the Middle East, and the key emerging themes in ERM implementation are standardization, integration and centralization.

Mikes and Kaplan (2014) argue that ERM studies produce few significant results due to limited fieldwork assessments to investigate actual risk management practices. To produce a complete and adequate assessment of how ERM is used and implemented in practice, they executed a ten-year fieldwork project using three case studies and conducting more than 250 interviews with senior and chief risk officers. The objective of the study is to provide comprehensive specifications for ERM that are more practical and to develop a foundation for a contingency theory of ERM that is based on specific design parameters.

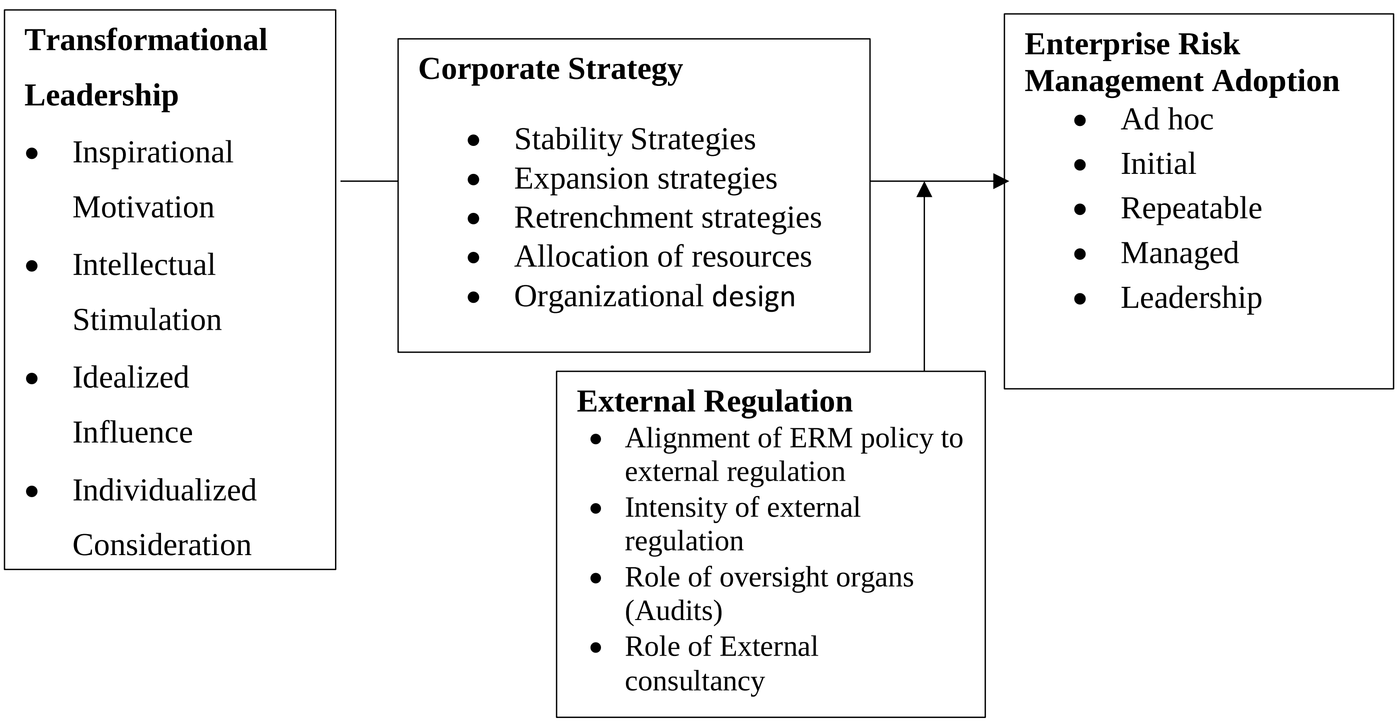
Yilmaz and Flouris (2017) revealed that enterprise risk management is not a one-time event. Enterprise Risk Management may be used as a philosophy of management, mentality and a holistic system. As a leading management system, ERM affects both the shape of corporate culture, leadership style corporate strategy. Strategy involves risk attitude, risk taking approach, risk culture and risk of appetite. To develop strategy and achieve it, managers implement enterprise risk management as a shape and individualized style. The human factor has an important role in business and in life. Humans can both create and manage risks. Based on this, ERM considers organizational behavior including physiology and sociology.

Paape and Speklé (2018) examined to what extent enterprise risk management (ERM) has been implemented and the factors that are associated with variation in the levels of ERM implementation. The results of the study were in line with previous studies on the subject and found that the extent of ERM adoption is affected by the regulatory environment in which the company is based. Additionally, the study found that perceived risk management effectiveness is affected by the frequency of risk assessment and reporting by using quantitative risk assessment techniques. The results however raised concerns on the structure of the Committee of Sponsoring Organizations (COSO). This framework was not found to affect the effectiveness of risk management.

Alam and Afza (2021) conducted a study on the corporative derivatives and risk management: a moderated mediation test. Data was collected from 166 Pakistani and 266 Malaysian firms listed in Karachi stock exchange and Bursa stock. The study excluded financial firms as they are both traders and consumers of derivatives. The research applied Bootstrap technique and findings showed that Malaysian firms have both conditional direct and indirect effect of derivative usage on firm value as the firm's risk moderated mediates the relationship of derivatives usage and firm value contrary to Pakistan where use of derivatives has only conditional indirect effect on firm value. It was therefore concluded that the usage of derivatives in Malaysia significantly enhances firm values through risk reduction.

3.0 Conceptual Framework

Figure 1 depicts the interactions of the independent variable, moderation-mediator variables, and dependent variable in a conceptual framework. It is conceptualized that transformational leadership is the independent variable, corporate strategy is the mediating variable, external regulation is the as moderating variable and the ERM adoption is the dependent variable, respectively.



Independent Variable **Moderation-Mediator Variables** **Dependent**

Figure 1: Conceptual Framework

4.0 Research Methodology

This study adopted positivism philosophy. A cross sectional survey design is more appropriate than others are since the data collected help answer research questions related to only one point in time (Hair, Money, Samouel, & Page, 2010). The study population comprised all the Commercial State Corporations in Kenya listed in the Report of the Presidential Taskforce on Parastatals Reforms 2013 as uploaded on SCAC web site as at March 2021. The study used census and surveyed all 52 Commercial State Corporations, as the unit of analysis is small. Kothari and Garg (2014) also argue that census approach enhances the generalizability of the research findings. This helps eliminate both the sampling error and the sampling bias. This is the most preferred method because the population is relatively small as well as being homogeneous. Each of the unit comprised elements that was instrumental in getting the information.

Census method was used, and all members of the top management team were enumerated as respondents. The total number of top management team were 405, the researcher obtained a total of 364 respondents upon exclusion of 10% pilot study respondents. The study achieved a response rate of 76% with the return of 276 questionnaires. The study used structured questionnaires to collect primary data. Quantitative data was then coded and analysed using SPSS version 22

Regression analysis (process analysis method) as suggested by Hayes and Rockwood (2020) was used to establish if the moderating effect of external regulation is significantly stronger than the mediating effect of corporate strategy on the relationship between transformational leadership and enterprise risk management adoption by Commercial State Corporations in Kenya. Hayes and Rockwood (2020) model for moderated mediation was adopted.

$ERM = \alpha + \beta_1 TL + \varepsilon$

$ERM = \alpha + \beta_1 TL + \beta 2ER + \beta_3 CS + \beta_4 CS{*}ER + \varepsilon$

Where:

ERM = Enterprise risk management adoption; TL = Transformational Leadership; ER = External Regulation; CS = Corporate Strategy α = constant (intercept); β=Coefficient parameters to be determined, composite* =interaction term, ε = Error/disturbance)

5.0 Results and Findings

The response rate was used to depict the representativeness of the sample size. A response rate is very important to the credibility of the research results. A total of 276 respondents successfully filled and returned the questionnaires translating to a 76% response rate. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Thus, 76% was considered very good for the study. Regression analysis results showed that the first model for regressing Transformational Leadership against ERM adoption by Commercial State Corporations in Kenya had 52.5% while the second step of regressing Transformational Leadership, External Regulation, Corporate Strategy, and ER*CS against ERM adoption by Commercial State Corporations in Kenya had 72.8%. The R squared for model increased from 52.5% to 72.8% after the moderated mediation effect.

5.1 Correlation Analysis

Correlation analysis was carried out to determine the association between the variables, transformational leadership, corporate strategy, external regulation and enterprise risk management adoption by commercial state corporations in Kenya. The mean score for each variable was calculated and the Pearson’s correlation obtained using SPSS. The correlation results are presented in Table 1.

Table 1: Correlation Matrix

		ERM Adoption	Transformational Leadership	Corporate Strategy	External Regulation
ERM Adoption	Pearson Correlation	1.000			
	Sig. (2-tailed)				
Transformational Leadership	Pearson Correlation	.769**	1.000		
	Sig. (2-tailed)	0.000			
Corporate Strategy	Pearson Correlation	.778**	.674**	1.000	
	Sig. (2-tailed)	0.000	0.000		
External Regulation	Pearson Correlation	.773**	.625**	.660**	1.000
	Sig. (2-tailed)	0.000	0.000	0.000	

The results in Table 1 indicate that Transformational Leadership is positively and significantly associated with ERM Adoption by Commercial State Corporations in Kenya ($r= 0.769$, $p=0.00<0.05$). Corporate Strategy is positively and significantly associated with ERM Adoption by Commercial State Corporations in Kenya ($r=0.778$, $p=0.00<0.05$). External Regulation is positively and significantly associated with ERM Adoption by Commercial State Corporations in Kenya ($r=0.773$, $p=0.00<0.05$). Since the R-values were above 0.7, this is an indication that Transformational Leadership, Corporate Strategy and External Regulation portrayed a high association with ERM Adoption by Commercial State Corporations in Kenya.

5.2 Hypothesis Testing

The objective of the study was to determine the moderation-mediator effect on the relationship between transformational leadership and enterprise risk management adoption by commercial state corporations in Kenya. The hypothesis stated in the null form was as follows:

H0: There is no significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

Hayes and Rockwood (2020) model for moderated mediation was adopted:

Model 1: $ERM = \alpha + \beta_1 TL + \varepsilon$

Model 2: $ERM = \alpha + \beta_1 TL + \beta_2 ER + \beta_3 CS + \beta_3 CS*ER + \varepsilon$

Where: ERM = Enterprise risk management adoption; TL = Transformational Leadership; ER = External Regulation; CS = Corporate Strategy α = constant (intercept); β=Coefficient parameters to be determined, * =interaction term, ε = Error/disturbance)

The effect was assessed, and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The results are presented in Table 2.

Table 2: Model Summary for Moderation- Mediator Effect

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.725a	0.525	0.524	0.71672
2	.853a	0.728	0.725	0.53709

The first model for regressing Transformational Leadership against ERM adoption by Commercial State Corporations in Kenya had 52.5% as shown in table 31, while the second step of regressing Transformational Leadership, External Regulation, Corporate Strategy, and Corporate Strategy*External Regulation against ERM adoption by Commercial State Corporations in Kenya had 72.8%. The R squared for model increased from 52.5% to 72.8% after the moderation – mediator effect. The ANOVA results are presented in Table 3.

Table 3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	197.18	1	197.18	383.86	.000
	Residual	178.25	275	0.51		
	Total	375.43	276			
2	Regression	265.66	4	66.42	230.24	.000
	Residual	99.23	272	0.29		
	Total	364.90	276			

Analysis of Variance in table 32 consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The F-Calculated for model one was (1, 276) = 383.86, p=0.000<0.05, which is greater than F-Critical (1, 348) = 3.84 at 95% confidence level. The F-Calculated for model two was (4, 276) = 230.24 which is greater than F-Critical (4, 276) = 2.371 at 95% confidence level. Therefore, the results confirm that the regression models one and two are significant.

Table 4: Regression coefficients for Moderation- Mediator Effect

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.868	0.114		7.64	0.000
	Transformational Leadership	0.716	0.037	0.725	19.59	0.000
2	(Constant)	0.017	0.094		0.18	0.854
	Transformational Leadership	0.231	0.049	0.237	4.73	0.000
	External Regulation	0.259	0.048	0.263	5.35	0.000
	Corporate Strategy	0.245	0.051	0.247	4.84	0.000
	External Regulation*Corporate Strategy	0.196	0.051	0.197	3.86	0.000

The fitted model was;

Model 1: $ERM = \alpha + \beta_1 TL + \varepsilon$

Model 2: $ERM = \alpha + \beta_1 TL + \beta_2 ER + \beta_3 CS + \beta_3 CS*ER + \varepsilon$

Where: ERM = Enterprise risk management adoption; TL = Transformational Leadership; ER = External Regulation; CS = Corporate Strategy; ER*CS=External Regulation* Corporate Strategy

The regression of coefficients results depicted in Table 33 shows that in step one, the regression model of Transformational Leadership on External Regulation was significant with $\beta=0.716$, $p=0.001<0.05$. In step two, the results show that the regression model of Transformational Leadership, External Regulation, Corporate Strategy, and the interaction term External Regulation*Corporate Strategy on ERM adoption by Commercial State Corporations in Kenya was significant with $\beta_1=0.231$, $p=0.000<0.05$: $\beta_2=0.259$, $p=0.000<0.05$: $\beta_3=0.245$, $p=0.000<0.05$, $\beta_4=0.196$, $p=0.000<0.05$. Since the p value for the moderation-mediator term (CS*ER) was significant 0.000<0.05 was less than the critical value 0.05, the study rejected the null hypotheses that there is no significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

6.0 Discussion of Findings

The objective of the study was to determine the moderation-mediator effect on the relationship between transformational leadership and enterprise risk management adoption by commercial state corporations in Kenya. Hayes and Rockwood (2020) model for moderation - mediator was adopted. The effect was assessed, and results explained using coefficient of determination (R-Square), Analysis of Variance (ANOVA) and the regression coefficients. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. The regression of coefficients results shows that in step one, the regression model of Transformational Leadership on External Regulation was significant. In step two, the results show that the regression model of Transformational Leadership, External Regulation, Corporate Strategy and the interaction term External Regulation with Corporate Strategy on ERM adoption by Commercial State Corporations in Kenya was significant. Since the p value for the Moderation - mediating term (CS*ER) was significant 0.000<0.05 was less than the critical value 0.05, the study rejected the null hypotheses that there is no significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

The findings are consitent with Awino, Machuki and Ogaga (2017) who analyzed the relationship between corporate strategy and performance of Kenyan companies revealed a statistically significant relationship between corporate strategy and organisational performance. Owotutu (2018) looked at the impact of external business environment on organisational Performance. The study results indicated that the external business environment had impact on organisational performance. Agustina and Baroroh (2016) study results indicated a positively although insignificant relationship between ERM and firm value. The study findings further indicated that companies that do not diversify internationally poses positive effect on the value of the firm. Ben-Amar *et al*. (2014) study results significant relationship between corporate strategy and enterprise risk management.

The findings agree with Rao and Marie (2007) research that showed that respondents are generally satisfied with the existing tools for assessing, measuring and mitigating financial risks, such as credit risks, interest rate risks and reinvestment risks. Muralidhar (2010) research findings reveal that ERM means different things to oil and gas companies in the Middle East, and the key emerging themes in ERM implementation are standardization, integration and centralization. Lundqvist

(2014) research results revealed four essential components or pillars of ERM implementation. Two components are related to the general internal environment and general control activities, whereas the third component is related to identifying risk management activities and the fourth component to defining the attributes of ERM implementation.

Bashir *et al*, (2020) applied a moderated mediation model to explain how the indirect effect of transformational leadership on employees' organizational commitment via procedural justice is moderated by career growth opportunities in organizations and concluded that procedural justice serves as a mediator between transformational leadership and organizational commitment, and this mediation process is affected by career growth.

Yang, Ishtiaq and Anwar (2018) examined the impact of ERM practices on SME performance with mediating role of competitive advantage between ERM and SME performance as well as the moderating role of financial literacy between ERM practices and competitive advantage. Results indicated that competitive advantage partially mediates the relationship between enterprise risk management practices and SME performance, and that financial literacy significantly moderates the relationship between enterprise risk management practices and competitive advantage.

Khaola (2019) examined aspects of fostering creativity and innovation and moderated mediation results indicated that the effect of transformational leadership and creativity were significantly moderated by effective commitment and at the same time creativity significantly mediated the moderated effect on innovation. The implication of the foregoing finding is the proposition that the effect of transformation leadership on creativity and innovation may not be always direct.

7.0 Conclusion

The objective was to assess the moderation-mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial State Corporations in Kenya. The study rejected the null hypotheses that there is no significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya. The study adopted the alternative hypothesis that there is a significant moderation – mediator effect on the relationship between transformational leadership and enterprise risk management adoption by Commercial state corporations in Kenya.

8.0 Recommendations

The study recomends that mainstreaming and alignment of internal polices of state corporations to external regulations to enhance enterprise risk adoption and good governance is also recommended. Internal policies should be reviewed periodically to incorporate changes in external regulations. Top management team of the organisation ought to review their reporting charter as policy intervention to require periodic reporting on compliance to external regulation. Overisght bodies like State Corporations Advisory Committee (SCAC) that oversee corporate governance in state corporations ought to sustain enforcement and compliance of external regulation as they have a moderating effect on ERM adoption.

The study recommnds that policy makes align policies related to enterprise risk management to incorporate elements of transformation leadership as a success factor in ERM adoption in commercial state corporations. Commercial state corporations should anchor the ERM adoption activities and other management programmes in the corporate strategic plan for effective execution. In addition, the corporate strategic plan should be cascaded to stakeholders to enhance ownership and design policy to ensure the implementation of the corporate strategic plan is effectively monitored. The researcher suggests that further studies be conducted to examine the interactions between ERM adoption levels and the performance of commercial state corporations.

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