

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

The Moderating Role of Transformational Leadership and Involvement on Organizational Performance of Micro Finance Institutions in Nairobi County, Kenya

Abdirahman Adam Edow

Masters Student, Garissa University College, Garissa, Kenya

Dr. Philip Bii

Lecturer, School of Business and Economics, Garisa University College, Garissa, Kenya

Dr. Rotich Stephen

Lecturer, School of Education, Art and Social Science, Garissa University College, Garissa, Kenya

Abstract:

The study investigates the moderating role of transformational leadership and involvement on organizational performance of micro finance institutions in Nairobi County Kenya. It adopted descriptive research design. The target population consist of 43 micro finance institutions in Nairobi town with 236 cadre of employees in total. The study used simple random sampling technique. The sample size consisted of 108 employees. The type of data used was primary collected using self-administered questionnaires. Data was analyzed using both descriptive statistics and inferential statistics. The research findings indicated that organizational culture significantly relates to organizational performance. The study established that transformational leadership significantly affects the relationship between organizational culture and firm performance of the micro finance institutions in Nairobi. The study informs management on how culture influences organizational performance by providing empirically tested evidence and the role leadership play.

Keywords: *transformational leadership, involvement, organizational performance*

1. Introduction

Organizations are constantly facing an increasingly dynamic environments characterized by considerable and often unpredictable economic, technological and political change. The manner in which organizations respond rapidly to such changes will ultimately have an influence on organizational performance. Organizational performance is defined as firm performance, the outcome of adapting useful management process (Mandy, 2009). According to Davood and Morteza (2012) sees firm performance as the ability of a firm to generate acceptable results and actions. Hence, firm performance is an essential issue in business activities which needs tolerable planning and dedication.

On the other hand, Involvement is the degree to which individuals at all levels of the organization are engaged in search of the mission and work in a collaborative manner to fulfil organizational objectives. This trait consists of building human capability, ownership and responsibility. Moreover, high performing organizations encourage new ideas and different solutions for solving problems. In addition, employees seek new and better ways to meet customer expectations on a continuous basis. Controlled risk taking is encouraged as the organizations learn from both successes and failures.

Olughor (2014) conducted a study in Nigeria on influence of culture in firm effectiveness in banking industry. The study adopted a survey design by administering 200 questionnaires. The study findings indicated that involvement has a positive and significant relationship with firm effectiveness in Nigerian banking industry. The study findings concurred with the literature with the U.S. results correlates most highly with five of eight effectiveness dimension (Olughor, 2014).

A study done by Salmani et al., (2013) inIran investigated effect of organizational culture on knowledge management implementation. The study distributed questionnaires 370 managers and employees of GOLDIRAN, an official agent of Korean firm named LG in Iran. The results of this study show that there were positive and meaningful relationships adaptability in this firm. These findings are supported by Saeidipour et al., (2013) which conducted a study on effects of organizational culture on job satisfaction (Kermanshah Province Office) Iran. The study found positive relationship between involvement and job satisfaction.

Ahmed (2012) made an evaluative study on the impact of organizational culture on performance management practices in Pakistan. The study adopted exploratory research to explore the impact. Primary data was collected through questionnaires from 60 employees in COMSATS Institute of Information Technology. The sample consists of both male and female faculty members. Regression and Correlation analysis was used for statistical analysis. Involvement was found to be having a significantly and positive relationship with the performance management practices.

Ogbonna and Harris (2000) analyzed the relationship between organizational culture and performance by including the leadership style as a third variable in the model. To measure performance they used variables such as: customer satisfaction, sales growth, market share, competitive advantage and sales volume. For organizational culture they used measures such as: competitive culture, innovative culture, bureaucratic culture and community culture.

2. Denison's Culture and Effectiveness Model

The study was guided by Denison's (1990) model of organizational culture is founded on four cultural attributes, which are; involvement, consistency, adaptability, and mission. He expressed that these elements have an impact on organizational effectiveness. The model places interest on the significance of relating administration approaches with core assumptions and viewpoints when exploring culture and efficacy. The principles and perspectives of an association offer a set of organization practices, which are actual activities generally entrenched in the ideals of the firm. These activities originate from and reinforce the prevailing principles and viewpoints of the association. The model portrays involvement and participation to entail building of human capability, ownership and a sense of accountability and consequently meet the firm's objectives and dedication (Denison, 1990). Successful organizations empower their workers and develop their relationship around groups (Lawler, 1996). People at all levels feel that they have, in any occasion, some commitment to decisions that will impact their work and that their work is particularly connected with the targets of the affiliation (Katzenberg, 1993; Spreitzer, 1995). Consistency on the other hand is seen to develop a mindset of legitimate structures that make an inward plan of organization in light of consensual support and it gives a central wellspring of blend, coordination and control. Firms tend to propel in light of the way that they have strong social orders that are dependable and steady, all around, encouraged and particularly organized (Davenport, 1993; Saffold, 1988). Individual and group conduct is root in essential ideals and is capable of accomplishing targets despite having shifting viewpoints (Block, 1991). This kind of consistency is a basis for firmness and inner amalgamation that results from a universal approach and compliance (Senge, 1990).

Flexibility clarifies how standards and convictions that improve an organization's capacity to obtain decipher and interpret signals from its surroundings into interior authoritative and behavioral changes will advance its survival, development and improvement (Denison, 1990). Paradoxically, organizations that are soundly incorporated are frequently the most complicated ones to change because of the profound levels of flexibility gained after some time (Kanter, 1993). Versatile organizations are driven by their clients and gain from their faults and have the ability and knowledge of making change (Nadler, 1998; Senge, 1990). Such organizations are consistently changing their frameworks to advance enhancements and give esteem to their clients (Stalk, 1988). The last cultural attribute is mission, which comprises of the meaning of a significant long-period bearing for the organization by characterizing a social responsibility and exterior objectives for the organization. It gives a distinctive route and objectives that serve to identify a suitable strategy for an association and its individuals (Denison, 1990).

A common feeling of reason, bearing and approach can synchronize and stimulate individuals toward group objectives (Baker, 2002). Effective organizations have an apparent purpose and bearing that identifies the firm's objectives and envisages the future of the firm (Mintzbert, 1994; Hamel and Prahalad, 1994). When a firm's mission changes, similar changes, as well, happen in various parts of the affiliation's lifestyle (Ahmad, 2012). These four cultural traits concentrate on various parts of culture, yet more imperatively, they focus on diverse elements of culture. Consistency and mission have a tendency to advance firmness while participation and adaptableness permit change and versatility. Consistency and participation consider culture to be concentrating on firm's inner changes while mission and flexibility consider culture to be tackling the connection of the firm to its outer surroundings (Baker, 2002).

3. Methodology

A research design is a statement of the essential elements of a study and constitutes the blue print for the collection, measurement and analysis of data (Cooper & Schindler, 2008) hence a logical and systematic plan prepared for directing a research study (Shajahan, 2005). The descriptive survey design aims at obtaining information that can be analysed for the purpose of establishing a basis for making decisions. The descriptive survey design enables the researcher to explore and describe the relationship between variables in their natural setting. This design is suitable because it enables the researcher to formulate important principle of knowledge.

The top management, middle management lower management of the 43 micro finance institutions in Nairobi city (CBK, 2016) constituted the subjects of the study. The study singled out Nairobi city since it is the headquarters of most micro finance institutions in Kenya. The target population consisted of 43 micro finance institutions in Nairobi town. There are 236 employees distributed in different cadres of management in institutions.

Primary data was collected by the use of a questionnaire. The questionnaire was suitable tool of data collection since it eliminates subjectivity which is common with other tools of data collection such as interviews. The questionnaire also accords the respondents adequate time to think or reflection before responding (Kothari, 2004). The questionnaires contained structured items which enables the researcher to tabulate and analyse data with ease.

4. Data Analysis

After data collection, the data obtained from the field was filled-in and returned questionnaires were edited for completeness, coded and entries made into Statistical package for social sciences (SPSS version 21). Descriptive and inferential analysis was conducted.

5. Results and Discussion

The study sought to examine the effect of culture on organizational performance among selected micro finance institutions in Kenya. This informed the null hypothesis of the study (H_{01}) that there is no significant relationship between involvement and organizational performance among selected micro finance institutions in Kenya. This hypothesis was tested through Pearson product moment correlation (r) to show the extent of the relationship, guided by the model: $Y = \alpha + \beta_1 X + \beta_2 M + \epsilon$ where α is the constant (intercept), Y =organizational performance, β_1 and β_2 are the beta Coefficients while X and M represent organizational culture and leadership respectively and ϵ is the Error Term.

		Organizational Performance	Organizational Culture
Organizational performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Organizational Culture	Pearson Correlation	.722**	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed). N=108			

Table 1
Source: Survey Data, 2017

The table above presents the Pearson correlations for the relationships between organizational culture and organizational performance among selected public universities in Kenya. From the findings, a very strong and positive correlation was established ($r = .722$; P value = $.000$), that was statistically significant at either 0.01 level or 0.05 level of confidence. The positive correlation is of the implication that as organizational culture is enhanced, organizational performance increases significantly.

The study thus fails to accept the first null hypothesis of the study that states that there is no significant relationship between organizational culture and organizational performance among selected public universities in Kenya and accepts the alternative hypothesis that states that there is a significant effect between organizational culture and organizational performance between micro finance institutions in Kenya. Stigler (2002) offers that the Pearson product-moment correlation coefficient measure linear correlation (dependence) between two variables X and Y , giving a value between $+1$ and -1 inclusive, where 1 is total positive correlation, 0 is no correlation, and -1 is total negative correlation. The findings thus imply that micro finance institutions in Kenya are guided by organizational culture hence increasing performance.

These findings concur with Ozigbo (2013) who did a study on the Impact of Organizational Culture and technology on Firm Performance in the Service Sector in Nigeria. The regression analysis results demonstrated that organizational culture practices have a strong significant relationship to overall improvement of firm performance. This is in agreement with Magee (2002) who established that in an organization with clearly established organizational culture, employees tended to share similar assumptions. Robbins (2012) concurs that with organizational culture employees tend to adopt a relatively uniform perception of organization with common characteristics distinguishing one organization from another. Consequently, the employees adopt the common values and norms which control their interaction among themselves and with the outsiders.

6. Conclusion and Recommendation

Organizational culture significantly influences organizational performance. With comparably high levels of Organizational culture practiced across the institutions and the significantly high organizational performance levels thereof, it can be deduced that the Organizational culture elements can be enhanced to bring about increased levels of awareness in order to enhance employee commitment and therefore performance. Through the implementation of a formal organizational culture in which each of the organizational culture elements are understood and communicated to employees, its end is the same that the institution cares about their employees' needs. Further, the study indicates the scope and necessity of further study on organizational culture in the micro finance institutions. Further studies on organizational culture in banking setting to aid in validating generalization of results of prior empirical studies on organizational culture in other service settings. More importantly, it will also help in identifying what elements of organizational culture micro finance institutions need to focus attention on and how employee satisfaction can be achieved through it.

7. References

- i. Ahmed, M. S. (2012), "Impact of Organizational Culture on Performance Management
- ii. Cooper, D.R, & Schindler, P.S. (2008) Business Research Methods, Tata McGraw-Hill
- iii. Denison, D. (1984). Bringing corporate culture to the bottom line. Organizational
- iv. Duke II & Edet (2012), there is positive association between organizational culture and performance.
- v. Ittner, E. & Larcker, M. (2012). *Organizational Culture: A Key to Financial Performance*, International Publishers, New Delhi, India.