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Organisational Structure and Operational Efficiency of Selected Money Deposit Banks in Lagos State, Nigeria

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Abstract:

Organisational structure is a critical antecedent to financial performance. In order to be capable of adequately responding to changes in dynamic environments, banks often decentralize decision-making authority, have minimal hierarchical levels or structural layers and adopt free-flow communication channels. However, most banks in Nigeria are characterized with improper organizational structure which had made most deposit money banks fail to function and operate efficiently or even collapse. Furthermore, most past studies on the influence of organisational structure on organisational performance have not critically investigated the effect of organisational structure dimensions in terms of centralization, bureaucratic structure, divisional structure, number of layers of hierarchy and formalization on performance of deposit money banks in Nigeria. Hence, this study examined the effect of organisational structure dimensions on performance of selected Deposit Money Banks in Lagos State, Nigeria.

The study adopted cross-sectional survey research design with a population of 26452 of 5 selected deposit money banks in Lagos State. The sample size estimated through the Cochran (1997) formula was 829 and selected through a stratified random sampling technique. A self-developed structured and validated questionnaire was used for data collection. Data were analyzed through Pearson Product Moment Correlation (r).

Findings revealed that organisational structure dimensions: Centralization ($r= 0.712, p<0.05$), bureaucratic structure ($r=0.753, p<0.05$), divisional structure ($r=0.747, p<0.05$), number of layers of hierarchy ($r=0.775, p<0.05$) and formalization ($r= 0.740, p<0.05$) had significant relationship with the operational efficiency of selected deposit money banks in Lagos State, Nigeria.

This study recommend that deposit money banks in Nigeria should leverage on the advantages of adopting the right organisational structure as it is suggested that adopting the appropriate organisational structure will enhance operational efficiency.

Keywords: *Organisational structure, Centralization, Bureaucratic structure, Divisional structure, Layers of hierarchy, Formalization. Performance*

1. Introduction

The myriad of problems facing the Nigerian financial institution today include, self-control influence, complex banking structure and weak internal control system. These have resulted into financial distress and liquidation of some banks. This has resulted in loss of confidence by customers since they have not been able to curb the ugly event called poor management of depositor's funds and internal structure (Onuba, 2017). According to Uwaleke (2017) the Nigeria justice system is very slow and, therefore, fails to act as a deterrent to weak internal structure among banks in Nigeria. Equally are lapses in internal control and structure systems of Nigeria banks, which are circumvented by fraudulent staff sometimes with the connivance of auditors. The importance of organisational structure in bank performance has been the subject of debate among managers, researchers, and policymakers in the last two decades due to among other factors, the rise in decline in bank overall performance, poor bank service delivery, bank staff communication gap, fraudulent financial reporting, and bank collapses.

Several studies including Aleksić and Jelavić (2017), Latifi and Shooshtarian (2014), Ogbo, Nwankwere, Orga, and Igwe (2015), Sammoudi (2016) among others have conducted study on the relationship between organisational structure and organisational performance in different sectors without considering the link between organisational structure dimensions (centralization, bureaucratic structure, divisional structure, number of layers of hierarchy and formalization) and bank performance. Furthermore, most of these past studies on the influence of organisational structure on

organisational performance have not critically investigated the effect of organisational structure dimensions in terms of centralization, bureaucratic structure, divisional structure, number of layers of hierarchy and formalization on operational efficiency of deposit money banks in Nigeria.

The relevance of centralization and how it relates to the operational efficiency has therefore remained unclear hence empirical research has yet to reach decisive conclusions about the nature of this relationship. Katuse, Ngari, & Owich, (2018), Ogbo, Nwankwere, Orga, and Igwe (2015), Ono & Uesugi (2005) suggested that the gaps should be filled. Since the Nigerian business environment is not completely immune from development in the global trend, the Central Bank of Nigeria (CBN) over the years has developed several measures aimed at providing sound banking structure and safeguarding various stakeholders interest in the financial system. But despite the efforts, the banking structure continues to experience some operational efficiency challenges that have eroded the confidence of bank stakeholders (Abata, 2014).

CBN Quarterly Report on Bank Survey (2018) revealed that most big banks in Nigeria have recorded increase in Non-performing Loan (NPL) and this has resulted to bank operational inefficiency to extend credit to major investors or customer for investment. These problems of increased NPL from ₦1.939trillion of fourth quarter in 2017 to ₦2.245trillion in the first quarter of 2018 and poor operational efficiency of these banks according to CBN (2018) Survey Report on bank activities could be attributed to poor organisational structure of banks which give room for misapplication of customer deposit. In view of this development, this study examined the effect of organisational structure dimensions on operational efficiency of selected money deposit banks in Lagos State, Nigeria.

2. Literature Review

2.1. Theoretical Framework and Hypotheses Development

A number of studies have been done to appraise existing theories and to enhance the understanding of organisational structure and operational efficiency (Katuse, Ngari, & Owich, 2018; Kwaji, Shamaki, & Ishaya, 2017; Mailu, Ntale, & Ngui, 2018; Nwonu, Agbaeze, & Obi-Anike; 2017; Ogbo, Nwankwere, Orga, & Igwe, 2015; Zachary, 2015). However, this study draws on contingency theory to substantiate the effect of organisational structure on operational efficiency of selected money deposit banks in Lagos State, Nigeria.

The Contingency theory been an organisational theory that claims that there is no best way to organise a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Different contingent leaders effectively apply different styles of structure to the right situations. The theory holds that the most effective organisational structural design is where the structure fits the contingencies. The contingency theory of organisational structure may be referred to more succinctly as structural contingency theory (Pfeffer, 1991). A challenge is that structural contingency theory is static and fails to deal with organizational change and adaptation (Galunic & Eisenhardt, 1994). The heart of structural contingency theory is static in the sense that it deals with how a static state of fit between structure and contingency causes high performance (Woodward, 1965).

Several empirical studies such as Amollo (2012), Arasa (2008), Markiewicz (2011), Matanda and Ewing (2012), Pearce and Robinson (2004), and Waiganjo, Odhiambo, and Gitau (2017) carried out studies on organisational structure. Their studies revealed that organisational structure dimensions exact positive effect on firm strategic implementation and operational efficiency. They further asserted that organisational structure should be aligned to the strategy being implemented in order to achieve firm operational performance. Similarly, Peong (2012), Rokwaro (2013), Sun and Tong (2003), Uwalomwa and Olamide (2012), Wen (2013) have shown positive relationships between organisational structure and the performance of commercial banks. Mailu, Ntale, and Ngui (2018) found out that there is a significant influence of organisational structure on firm operational performance. Their study further established that organisational structure, organisational resources and organisational culture have a significant effect on organisation overall performance. On the other hand, Kiruri (2013) mentioned that, ownership concentration structure negatively affects bank profitability and operational efficiency. Based on these different findings on the link between organisational structure dimensions and operational efficiency, this study hypothesized that; *H₀₁: Organisational structure dimensions have no significant relationship with the operational efficiency of selected deposit money banks in Lagos State, Nigeria.*

2.2. Organisational Structure Dimensions and Operational Efficiency

Studies such as Nwonu, Agbaeze, and Obi-Anike (2017) and Zachary (2015) investigated the link between organisational structure and firm performance. Their study found that organisational structure significantly affects organisational performance. Nwonu, Agbaeze, and Obi-Anike (2017) further found that organisational structure in pharmaceutical manufacturing firms enhance operational performance except in its growth objective. Similarly, Estalaki (2017) empirically showed that there is significant relationship between efficiency in industrial units with organisational structure and its components including complexity, formality and concentration.

Subramaniam and Mia (2001) examined the relationship between decentralized structure and operational efficiency in the Australian Hotel Industry. They found that centralization had a positive relationship with operational efficiency. Similarly, Auh and Menguc (2017) investigated the roles formalization and centralization play on operational efficiency within leading industrial production firms. The results indicated that, with regard to operational efficiency, centralization had a negative effect while formalization was found to have a positive effect. Schminke *et al.* (2018), investigated the effect of organisational structure (centralization, formalization, size, and vertical complexity) and operational efficiency. Results indicated that centralization, formalization, and organisational level exert a strong effect on

operational efficiency. Finally, organisational level moderated many of the relationships between structural dimensions and operational efficiency.

In consonance with Schminke *et al.* (2018), Ogbulu and Emeni (2012) found a positive association between board composition and firm efficiency in banking sector as at December 2008. This indicates that the benefit of board independence, objectivity and experience expected from the representation of outside directors to influence board strategic decisions appears to hold back managerial initiative through too much monitoring. Evidence has also shown that board composition has no relationship with allocative efficiency (Kajola, 2012; Kwaji, Shamaki, & Ishaya, 2017; Mansur & Ahmad, 2013; Schminke, Cropanzano, & Rupp, 2018; Taljaard, Ward, & Muller, 2015). Kwaji *et al.*, (2017) found no relationship between board composition and firm performance measured by ROE and Profit efficiency. Also, Taljaard *et al.*, (2015) reported that larger proportion of outside directors has no impact on firm performance measured by ROA, ROE, Tobin's Q and P/E ratio.

Likewise, Horvath and Spirollari (2012) investigated the effect of 136 American companies' board feature on firm performance in the S&P 500 Stock Index for the years 2005-2009. The research showed a statistically insignificant relationship between percentage of female directors and technical efficiency. In a relative study, Firoozi, Magnan, and Fortin (2016) examined effect of the foreign board members on firm performance of companies listed in S&P 1500 Index. According to the results of the model estimates; they found statistically significant and negative relationship between foreign board members and technical efficiency. In the studies of Abbasi (2013), he investigated the relationship between corporate governance mechanisms and firm efficiency for companies listed in Tehran Stock Exchange, in the food sector and identified a positive relationship between the number of independent board members and firm efficiency.

Also, Prabowo and Simpsons (2012) analyzed the relationship between centralization, formalization, size, and vertical complexity and firm performance in family-controlled business with a sample of Indonesian non-financial companies. They found an insignificant relationship between the share of independent directors on boards and firm performance for family-controlled companies in Indonesia. They revealed that this result is driven by the lack of institutional reforms in relation to the appointment of independent directors in Indonesia. In the same vein, Creek (2017) studied the relationship between four corporate governance characteristics and six measures of firm performance and found a negative relationship between the size of the board and Tobin's Q. For board independence, it was found that majority independence of the board of directors has minor negative impact on firm performance. Maintaining a majority of outside, independent directors has no significant effect on firm performance and may also lead to poorer results as the percentage of independent directors increases.

Velte (2017) citing the findings of Rouf (2012) stated that Bangladeshi non-financial companies' separation of CEO and firm performance is positively related and board independent director also positively significant with profit efficiency. Rashid (2018) found a positive link between the independent variables; board structure variables: board size, separation of the positions of chairman and general manager, existence of duly empowered member, proportion of outside members and existence of sub-committees and the dependent variables: firm performance and separation of chairman and general manager positions.

Another aspect of centralization, formalization, size, and vertical complexity, Karayel and Dogan (2016) examined the relationship between centralization, formalization and financial performance and found a positive relationship between having female directors and ROA, but they could not find any meaningful relationship between centralization, formalization and ROE and Tobin's Q. Rajula (2016) and Wetukha (2013) study also found that gender diversity and the proportion of executive directors negatively affect the financial efficiency of quoted companies. In contrast, Vermaelen (2017) in their study focused on the board composition and firm performance in the Netherlands and found no relationship between performance and size of the management board. They also found that there exists a negative relationship between remuneration of supervisory boards and performance; especially since remuneration of total boards reflects their size.

3. Methods

This study employed a cross-sectional survey design and, it involves studying a subset of a population at a point in time and determining functional relationship within the time of the study. The advantage of this method is that it is cheaper, less time consuming than a longitudinal design (Onamusi, 2019). Studies found cross-sectional design appropriate in specific circumstance for example when examining the functional relationship between the independent and dependent variable at a point in time (Onamusi, Asikhia, & Makinde, 2020).

3.1. The Study Context, Sampling and Data collection

The population of this study comprised of 26452 employees of Access Bank Plc, First Bank Plc, Guaranty Trust Bank, United Bank for Africa, and Stanbic IBTC Bank in Nigeria. The category of staff that made up the population are those in the top management level, middle management level, and the operational management level. These categories of staff have been employed by the selected money deposit banks within fifteen years to suggest having enough knowledge of their organisation. Using Krejcie and Morgan sample size determination table, 829 sample was considered appropriate for the population of the study.

The research instrument for data collection was a structured questionnaire. The use of questionnaire is relevant because it helps in collecting feedback based on the perception and opinion of the respondents, more so, it is suitable for collecting data from respondents in a short time on current issues, and it is an enabler of quantitative data analysis. The items in the questionnaire were adapted from existing literature. The response options provided in this study's

questionnaire followed the 6-point Likert type scale (1 = strongly disagree, 6 = strongly agree), consistent with (Binuyo et al., 2019; Onamusi et al., 2020).

3.2. Measurement of Variables

Drawing from this study's research framework, the following dependent (Operational efficiency), independent (organisational structure dimensions) variables were discussed taking cognizance of their measurement in extant literature.

3.2.1. Independent Variable: Organisational Structure

Horvath and Spirollari (2012) measured organisation structure by incorporating the following; centralization, formalization, and flexibility. Similarly Kihara, Karanja, Kennedy, and Ogolla (2016) measured organisation structure by incorporating specialization, span of control, centralization and departmentalization. Similarly, in the study conducted by Shabbir (2014), the scholar measured organisation structure by the number of layers in hierarchy of the organisation, the nature of formalization, the nature of internal and external boundaries that exist in the organisation and the nature of technology (appropriate) adopted by the organisation. In this study, measures of organisational structure include centralization, bureaucratic structure, divisional structure, number of layers in hierarchy, and formalization of jobs structures. The following dimensions of organisational structure were considered;

3.2.1.1. Centralization

The power of decision making is all in the authority's hands. The high-level managers seldom listen to the lower level's opinion. This occurs in an organisation when a limited degree of authority is delegated. According to Martínez-León and Martínez-García (2011), centralization refers to the extent to which decision making and evaluation of activities are centralized.

3.2.1.2. Bureaucratic Structure

Saint-Onge and Wallace (2012) defined bureaucratic structures as a form of organisational structure by which the organisation arranges its staff to reflect how it functions to deliver its goals and objectives. A bureaucracy structure is a hierarchical organisation designed rationally to coordinate the work of many individuals in the pursuit of large-scale administrative tasks and organisational goals (Omondi, Rotich, Katuse, & Senaji, 2017).

3.2.1.3. Divisional Structure

The divisional organisational structure organises the activities of a business around geographical, market, or product and service groups (Krut, 2012). Karuiki (2015) stated that divisional structure types emphasize divisionalization over decentralization and that control within the organization is essentially determined within the separate divisions of the organisation. Karuiki (2015) further asserted that an obvious benefit of the divisional organizational structure type is risk diversification, also known as strategic invulnerability.

3.2.1.4. Hierarchy

Sibindi (2014) defined number of layers in the hierarchy structure as a chain of command of reporting relationship from bottom to top, who reports to whom in the organisation. Chipea and Banciu (2013) view hierarchical organisation as an organisational structure where every entity in the organisation, except one, is subordinate to a single other entity. This arrangement is a form of a hierarchy structure. The more hierarchical layers in a firm, the more complex the structure of the organisation, the more complex the structure, the more difficult coordination and integration of organisation member become.

3.2.1.5. Formalization

Formalization refers to the number of written documentations in the organisation (Daft *et al.*, 2010). It indicates the extent to which job tasks are defined by formal regulations and procedures (Al-Qatawneh, 2014). These rules and procedures are written to standardize operations in organisations. Professionalism measures the extent to which an organisation uses rules and procedures to prescribe behaviour (Liao *et al.*, 2011).

3.2.2. Dependent Variable: Operational Efficiency

According to Amarjit, Manjeet, Neil, and Harvinder (2016), operational efficiency is characterized with changes in the cash conversion cycle, operating expenses to sales revenue ratio, operating cash flow, total asset turnover, total debt to total assets ratio, firm size, and operating risk impact the future performance of the firm. Nsikan, Etim, and Ime (2015) emphasized that operational efficiency is characterized by organisational objectives, planning, controlling, and strategic processes. Also, a primary focus of operational efficiency includes effectively managing any resources of an organisation in order to maximize the potential of any products or services that are offered by the company

4. Data Analysis

The study employed a Pearson Product moment correlation analysis to establish the relationship between organisational structure and operational efficiency.

		Operational Efficiency	Centralization	Bureaucratic Structure	Divisional Structure	Layers of Hierarchy	Formalization
Operational Efficiency	Pearson Correlation	1	.721**	.753**	.747**	.775**	.740**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
	N	682	682	682	682	682	682
Centralization	Pearson Correlation	.721**	1	.798**	.780**	.746**	.732**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	682	682	682	682	682	682
Bureaucratic Structure	Pearson Correlation	.753**	.798**	1	.830**	.781**	.781**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	682	682	682	682	682	682
Divisional Structure	Pearson Correlation	.747**	.780**	.830**	1	.823**	.811**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
	N	682	682	682	682	682	682
Numbers of Layers of Hierarchy	Pearson Correlation	.775**	.746**	.781**	.823**	1	.749**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
	N	682	682	682	682	682	682
Formalization	Pearson Correlation	.740**	.732**	.781**	.811**	.749**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	682	682	682	682	682	682

Table 1: Correlation Result

Source: Researchers' result, (2020)

**. Correlation is significant at the 0.01 level (2-tailed)

4.1. Interpretation

The relationship between organisational structure dimensions (as measured by centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization) and operational efficiency was investigated in selected deposit money banks in Lagos State, Nigeria using Pearson's product-moment correlation coefficient. The results show that there is a strong, positive relationship between operational efficiency and organisational structure dimensions with a correlation coefficients of 0.721, 0.753, 0.747, 0.775, and 0.740 for centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization respectively, which implies operational efficiency may increase with an improvement in centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization of selected deposit money banks in Lagos State, Nigeria. The corresponding p-value is less than 0.05 implying that the result is statistically significant. Therefore, the null hypothesis one which states that organisational structure dimensions have no significant relationship with the operational efficiency of selected deposit money banks in Lagos State, Nigeria was rejected.

4.2. Discussion of Findings

The study evaluated the relationship between organisational structure dimensions (centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization) and operational efficiency of selected deposit money banks in Lagos State, Nigeria. The results of the correlation analysis for the relationship between organisational structure dimensions and operational efficiency provided an overall significant view. The combination of organisational structure

dimensions was statistically significant in showing that a relationship exists with operational efficiency of selected deposit money banks in Lagos State, Nigeria.

Conceptually, Aleksić & Rašić Jelavić (2017) and Estalaki (2017) view that standard organisational structure system improve firm operational efficiency. They further conceptualized that for any firm to be competitive globally and gain overall performance, its organisational structure must be of global standard. Jamshidi (2014) conceptually argued that organisational structure is the framework of relationships, dominating the jobs, systems, operational processes, people and groups that are trying to achieve operational efficiency and performance. Through organisational structure, the operations and activities inside the organisation are coordinated and the responsibilities and authorities are determined, the structure is the manifestation of systematic thinking, thus increase operational efficiency (Forouhi, 2016).

Furthermore, empirical studies such as Aslam, Barbu, Capusneanu, and Lodhi (2017), Kariuki (2015), Latifi and Shooshtarian (2014), Malik (2016), Schminke, Cropanzano, and Rupp (2018) and Zachary (2015) established that organisational structure components like centralization, bureaucratic structure, divisional structure, layers of hierarchy have positive and significant effect on firm operational efficiency. Similarly, Nwonu, Agbaeze, and Obi-Anike (2017), Olajide (2015), Shabbir (2017), and Vishwakarma (2017) found that centralization, bureaucratic structure, formalization and divisional structure have positive and significant relationship with firm operational performance. Estalaki (2017) showed that there is significant relationship between operational efficiency with components of organisational structure like complexity, formality and concentration. Karayel and Dogan (2016) established that there is positive and significant relationship between centralization, formalization, operational efficiency and financial performance.

In contrast, Auh and Menguc (2017) and Vermaelen (2017) revealed that formalization and centralization negatively affect operational efficiency of industrial production firms. The results indicated that, with regard to operational efficiency, and centralization had a negative relationship (Kajola, 2012; Kwaji, Shamaki, & Ishaya, 2017). Considering literatures on the link between organisational structure and firm operational performance, most of the past literatures supported this study finding which showed that global standard organisational structure measures have positive and significant relationship with operational efficiency.

Theoretically, the contingency theory argued that the level of uncertainty and rate of change in an environment impacts the development of internal features in organisations. Contingency theory is an organisational theory that claims that there is no best way to organise a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Different contingent leaders effectively apply different styles of structure to the right situations. The contingency theory holds that the most effective organisational structural design is where the structure fits the contingencies in order to achieve operational efficiency.

5. Conclusion, Recommendation, Limitation, and Suggestion for Future Research

Considering the empirical findings, this study concluded that there was a statistically significant relationship between organisational structure dimensions (centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization) and deposit money bank performance (operational efficiency, market share, employee productivity and effectiveness). Also, the study concluded that organisational structure dimensions (centralization, bureaucratic structure, layers of hierarchy and formalization) significantly affected employee job satisfaction. Theoretically, the outcome of this study is in line with contingency theory; as the theory claims that there is no best way to organise a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent upon the internal and external situation. Contingency theory argues that the design and use of organization structure dimensions is contingent upon the context of the setting in which those organisations operate in the bid to enhance organisational performance.

6. Implication for Management

The study aids the deposit money bank managers in modelling and designing organisational structure frameworks and policies that can be used to improve banking practices and overall performance. It provides adequate information on how deposit money banks in Nigeria can maximize their organisational structure to drive their strategies in their effort to optimize overall bank performance. It helps the management of deposit money banks in Nigeria to understand the advantages accruable to different organisational structure practices at the management and board levels towards enhancing overall bank performance.

7. Limitations of the Study

The study experienced some shortcomings that limited the presentation, interpretation and generalization of the findings and as such serve as the basis for suggestions for further study. Despite the assurance of confidentiality and absolute appropriate representation of data collected from selected banks, there was still element of doubt on the part of selected banks. As a result of this challenge, most of the banks management were not very supportive therefore making it difficult to get employees to fill the research instrument. The Researcher and the Research Assistants had to make several calls and repeated visits to the banks before permission was finally granted. Secondly, access to specific information and data were restricted due to suspicion of likely divulgence of information to competitors in the same industry. Hence, aggregate data on the variables identified were analyzed and used for the study. The data was collected from employees of banks in Lagos State and may therefore not be sufficient to generalize for non-bank organisations. It is also advisable to exercise caution in using the data to make generalizations for banks that are not deposit money banks.

Lastly, the study recognizes the fact that several variables besides the one identified in this study contribute to bank overall performance and it is not unmindful of the fact that there are other determinants of organisational structure

beyond the five variables isolated in this study (centralization, bureaucratic structure, divisional structure, layers of hierarchy and formalization) Similarly, this study is aware of the fact that a number of other factors can also predict performance of deposit money banks industry. To relate these two constructs (organisational structure components and bank performance) together; this study assumed other factors as being constant.

The shortcomings of this study uncover potential areas for further research. First, organisational structure components and bank performance as examined in selected sub geography of Western Nigeria (Lagos) was geographically limited and restricted. The study could be expanded to cover other geographical areas for generalizability reasons. Also, future researchers could employ longitudinal survey research design to capture the dynamics and other types of organisational structure components and bank performance dimensions apart from variables used in this study. In addition, future research direction could make use of broader sample of deposit money banks, especially, looking at other regional categorization of deposit money banks that was not part of this study. This would help to reveal if this research can be replicated in a different sector and generate similar result. Lastly, future researchers could consider incorporating leadership orientation and organisation culture as moderating variables to gain further insight on the study variables.

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