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The Role of Employee Commitment and Organizational Culture on the Relationship between Transformational Leadership and Performance of Deposit Taking SACCOs in Nairobi County, Kenya

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Abstract:

The main objective of this study was to establish the role of employee commitment and organizational culture on the relationship between transformational leadership and performance of Deposit taking SACCOs in Nairobi City County, Kenya. The theories chosen to anchor the variables in this study include: transformational leadership theory Self-determination theory, organizational culture theory and contingency theory. This study adopted descriptive cross-sectional research design. The population of the study was the (40) deposit taking savings and cooperative societies in Nairobi City County as at December 2016. Multiple regression models were used to test the significance of the influence of the independent variable on the dependent variable. T-test was used to test the direction of the relationship between the dependent and the independent variable. The study found that employee commitment and organizational culture played a significant mediating and moderating role in the relationship between transformational leadership and both financial and non-financial performance. Since organizational culture and employee commitment mediates and moderates the relationship between transformational leadership and performance respectively, the SACCO ought to continually invest in the development of employee's skills in order to stay competitive and meet on-going business needs. The study recommends that building a capacity in the workforce to prepare for transition in commitment will require leadership training, communication, and clear expectations for the leaders and followers. Capacity development within an organization may be challenging to organizations with limited resources and limited time for training initiates. The study also recommends that it is critical that Sacco's leaders understand the cultures of their organization and seek to develop values and practices that are supportive of innovation. This can be influenced: through the beliefs and experiences of its members, through beliefs and values of leaders, and through organizational practices.

Key words: Transformational leadership, Organizational culture, Employee commitment, SACCOs, Performance, Nairobi City County

1. Introduction

In any organization, leaders are crucial in motivating and helping their employees to be competitive and committed to the achievement of organizational goals and objectives by use of effective leadership styles (Enayat, 2013). Transformational leadership influences the fundamental attitudes and assumptions of an organization's members, creating a common mentality to attain the organization's goals and this leadership style usually generates higher performance. Although evidence shows that transformational leaders exercise a substantial influence on performance, understanding of the processes through which they exert this influence is still limited and largely speculative.

With the future being predicted in terms of technological, social, competitive and legal scenarios, good leadership is regarded as the key to maintain and retain employees and ensure successful change management in today's firms. Transformational leaders are associated with the ability to show how beneficial practice development is through inspiring a change of culture, positive team work, being adaptable and goal oriented (Yukl, 2010). Employee commitment and organizational culture are among many paradigms that ensure transformational leadership has positive effects on organizational performance (Skakon et al., 2010). Organizations that have committed employees and anchored in a culture

of performance have the opportunity to gain greater rewards in performance (Chong and Wolf, 2010). Transformational leaders have been associated with the ability to adjust according to situations (Joo and Park, 2010).

Employee commitment is defined as the relative strength of an individual's ties with an organization and his attention to the organization (Lok, 2004). There are three components of employee commitment: affective, continuance and normative (Meyer & Allen, 2006). Affective commitment indicates the emotional commitment of an employee to the organization and his integration with it (O'Reilly, 2007). The motivation for an employee to stay in an organization gives him emotional commitment and identification with the goals of the organization. Employees who stay in an organization with strong affective commitment continue to work there not because they need but they want it (Meyer et al., 2002).

Organizational culture is defined as the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organization (Deal and Kennedy, 2000). Organizational culture stands for principles, values and beliefs of firm members. It comprises of those qualities that give a certain climate as a result of distinctive qualities manifest in various dimensions (Lok, 2004). Organizational culture develops in large part from its leadership while the culture of an organization can also affects the development of its leadership (Enayat, 2013). Transformational leaders build cultures and articulate them to followers and typically exhibit a sense of vision and purpose. They align employees around the vision and empower them to take greater responsibility for achieving the vision.

Organizational performance refers to an organizations achievement as compared to the set goals and objectives. Kaplan and Norton (2008) defined performance as the ability of a firm to attain its goal by using its available resources in the most effective and efficient way. Organizational performance is a major multidimensional construct aimed at achieving results and has a very strong link to leadership of the organization (Mwita, 2000). It comprises the actual output or results of an organization as measured against its intended outputs (goals and objectives). According to Kaplan and Norton (1996) balanced score card model, organizational performance not only includes financial measures but also customer criteria such customer satisfaction, customer retention and business processes such as the best practices and innovativeness.

Performance measurement assesses the current position of the organization and helps managers create and implement a better strategy. Kaplan and Norton (1996) present the balanced Scorecard model as a useful tool for the organizations to obtain a competitive advantage. The framework is of the idea that there is no single measure that can give a broad picture of the organizations performance and hence devised a framework based on four perspectives: financial, customer satisfaction, internal processes (business efficiency) and organizational capacity (Knowledge and capacity). This study financial measure will include Return on investment (ROI) and operating margin, while the non-financial measure will entail customer satisfaction and quality of services.

The Deposit Taking Savings and Credit Cooperative societies (DTSACCOs) in Kenya are said to be the largest in Africa (SASRA, 2012). They contribute significantly to the country's domestic savings, forming a vital component of Kenya's economic and social development. At least one out of every five Kenyans depends on DTSACCOs for their livelihood and social wellbeing (SASRA, 2012). The DTSACCOs are players in the financial industry among others. The financial industry is a dynamic industry with a relatively modest history in Kenya and requires visionary leaders. In the financial industry, customer is the king and every act of the employee is driven by the service demand of customers. Among the different sorts of advancements, leadership is an essential path for the DTSACCOs to accomplish upper hand and in this way improve performance.

Transformational leadership has been established as the most effective way in which leaders influence in firms can be seen (Horner, 2007). Nevertheless, when compared to the other parts of the world, few studies have been conducted in developing countries, to be specific, Kenya. To supplement the surviving examination on the relationship between transformational leadership and organizational performance, this examination will research on transformational leadership, employee commitment, organizational culture and organizational performance.

The DTSACCOs in Kenya are facing challenges emanating from factors such as globalization, competition and technological changes which mean that the sector requires innovative ways to survive (SASRA, 2013). The leadership of DTSACCOs in Kenya is based on a democratic manner where members elect a board of management which in turn is responsible of determining the managers who run the day-today activities of the DTSACCOs. Most of these leaders who take up the positions have low managerial qualifications and experience hence difficult to have leaders with transformational leadership characteristics (Njoroge, 2008).

The DTSACCOs are characterised by a culture of nepotism which is manifest in the employment procedures and hence most employees have low qualifications and expertise which makes them less committed to deliver the services effectively (Nyambere, 2013). DTSACCOs in Kenya have also been found to retire their employees early in order to evade the salaries they should be paid following their experience and expertise (Karanja, 2013). Many qualified leaders leave management and leadership to the young inexperienced persons which make the DTSACCOs to be viewed as organizations which operate locally and characterized by inefficiency (Mirrie, 2014). The Kenyan DTSACCOs sector has been known to be conservative to these traditional undertakings and this study follows the curiosity to fill this contextual gap.

2. Materials

The theories chosen to anchor the variables in this study include: transformational leadership theory Self-determination theory, organizational culture theory and contingency theory. Transformational leadership theory contends that a transformational leader identifies the needs of the supporters with high motivation and maturity (Burns, 1978).

According to self-determination theory employees are inherently proactive and have the potential to master their inner self-drive, emotions and have inherent tendency towards growth and performance (Ogbonnaya and Harris, 2000). The theory reflects employees as people who are energetic, creative, vibrant, excited about life and inquisitive (Lynch et al., 2005).

The organization culture argument is grounded in the organizational culture theory which proposes that an organization has implicit assumptions that define how it identifies and reacts to its many settings (Ogbonna and Harris, 2000). Irrespective of the organizational culture, leaders should be able to align the organizations core standards with the expected organizational performance (Ogbonna and Harris, 2000). The Contingency theory proposes that there is no most ideal approach to run an organization and that leadership that best adds to the achievement of organizational objectives vary in various sorts of circumstances or conditions (Enayat et al., 2013). The best approach is dependent on the setting and environment in which the organization operates.

The link of transformational leadership, employee commitment, performance and organizational culture is well written in the literature with little research done on their combined interaction (Fey & Denison, 2003). Zhu et al. (2013) claims that transformational leadership has an impact on organizational commitment of employees with an argument that when leaders act as role model to their supporters, respect, give support and encourage their followers they end up building up trust with their followers. Previous research establishes that transformational leadership is the main precursor of employee commitment in various organizational cultures (Jung, 2000). According to Lok and Crawford (2004) inventive and supportive cultures have a positive effect on performance. Moreover, Rieger (2002) stated, a strong, stable and positive association between organizational culture scopes and organizational performance. Rieger (2002) concluded that organizational cultures positively influence organizational performance.

A survey conducted by Denison Consulting on 90 organizations conveyed that firms with resilient culture scores had substantially high employee commitment scores (Denison Consulting, 2010). Lorsch (2007) in his study of plastics industry argues that in complex environments the organization needs to develop separate departments to control the differing environmental segments. Fey (2003) adds that the situations are favourable to the leader if the leader-member association, level of task structure and leaders position power is advanced. Transformational leadership through their idealized stimulation are able to have a firm leader-employee relationship and in a variety of these environments or cultures (Rieger, 2002).

3. Methods

This study adopted descriptive cross-sectional research design. The population for this study was the (40) deposit taking savings and cooperative societies in Nairobi City County as at December 2016. The data for the study was both primary and secondary quantitative. Primary data was collected on transformational leadership and performance. The data collected on organizational performance was both financial and non-financial. Financial data was collected about the SACCO's return on investment and operating margin, while non-financial data was collected on SACCO's customer satisfaction and quality of services. Secondary data was obtained from annual reports of SACCOs and reports from the SACCO Societies Regulatory Authority. Primary data was gathered using structured questionnaires with statements anchored on a Likert-type five-point scale. Multiple regression models were used to test the significance of the influence of the independent variable on the dependent variable. Fischer distribution test (F-test) was used to test the significance of the independent variable and the overall model. The p-value for the F-statistic was used to determine the robustness of the model.

4. Results

The objective of this study was to Assess whether the employee commitment and organizational culture plays a significant role on the relationship between transformational leadership and performance of Deposit-Taking SACCOs in Nairobi City County, Kenya. This objective gave rise to the following two sub-hypotheses:

- H_{1a}: The joint effect of transformational leadership, employee commitment and organizational culture on financial performance is significantly higher than individual effect of transformational leadership on financial performance.
- H_{1b}: The joint effect of transformational leadership, employee commitment and organizational culture on non-financial organizational performance is significantly higher than individual effect of transformational leadership on non-financial organizational performance.

In the regression model, financial performance was the dependent variable, while Transformational leadership, employee commitment and Organizational culture were predictor variables. The results are presented in Table 1.

Model Summary ^d										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.459 ^a	.211	.209	.53950	.211	88.256	1	330	.000	
2	.488 ^b	.238	.234	.53094	.027	11.720	1	329	.001	
3	.551 ^c	.303	.297	.50845	.065	30.757	1	328	.000	1.684
a. Predictors: (Constant), Transformational Leadership										
b. Predictors: (Constant), Transformational Leadership, Employee Commitment										
c. Predictors: (Constant), Transformational Leadership, Employee Commitment, Organizational Culture										
d. Dependent Variable: Financial performance										
ANOVA ^a										
Model		Sum of Squares		df	Mean Square		F	Sig.		
1	Regression	25.687		1	25.687		88.256	.000 ^b		
	Residual	96.049		330	.291					
	Total	121.737		331						
2	Regression	28.991		2	14.496		51.421	.000 ^c		
	Residual	92.745		329	.282					
	Total	121.737		331						
3	Regression	36.943		3	12.314		47.634	.000 ^d		
	Residual	84.794		328	.259					
	Total	121.737		331						
a. Dependent Variable: Financial performance										
b. Predictors: (Constant), Transformational Leadership										
c. Predictors: (Constant), Transformational Leadership, Employee Commitment										
d. Predictors: (Constant), Transformational Leadership, Employee Commitment, Organizational Culture										
Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics			
		B	Std. Error	Beta			Tolerance	VIF		
1	(Constant)	1.910	.146		13.092	.000				
	Transformational Leadership	.432	.046	.459	9.394	.000	1.000	1.000		
2	(Constant)	1.760	.150		11.726	.000				
	Transformational Leadership	.360	.050	.383	7.208	.000	.822	1.217		
	Employee Commitment	.141	.041	.182	3.423	.001	.822	1.217		
3	(Constant)	1.444	.155		9.338	.000				
	Transformational Leadership	.154	.061	.164	2.542	.011	.513	1.951		
	Employee Commitment	.120	.040	.155	3.030	.003	.814	1.228		
	Organizational Culture	.285	.051	.345	5.546	.000	.549	1.822		
a. Dependent Variable: Financial performance										

Table 1: Regression results for the Joint Effect of Transformational Leadership, Employee Commitment and Organizational Culture on Financial Performance

The results displayed in Table 1 reveal that the joint effect of transformational leadership, employee commitment and organizational culture on financial performance was statistically significant. The results show that jointly the variables explain 30.3% of the variations in financial performance ($R^2 = .303$). Therefore, the hypothesis was supported by the results of the study. The results show that transformational leadership independently explains 21.1% of the variation in financial performance. Transformational leadership and employee commitment explain 23.8% of the variations in financial performance ($R^2 = .238$). Transformational leadership, employee commitment and organizational culture jointly explain 30.3% of the variations in financial performance. The joint effect was thus higher and significant compared to the individual effect of individual variables therefore supporting the hypothesis. Therefore, the hypothesis that Transformational leadership, employee commitment and organizational culture jointly have significant influence on the financial performance was accepted.

Based on the results, the regression model is substituted as follows:

$$Y = 1.444 + 0.432TL + 0.141EC + 0.285OC$$

Where :

Y= Financial Performance

TL= Transformationnel leadership

EC=Employee Commitment

OC= Organizational Culture

The fitted model implies that independently, a unit change in transformational leadership, employee commitment and organizational culture leads to 0.432, 0.141 and 0.285 change in financial performance which are all significant at 0.05 statistical level and therefore supporting the hypothesis.

- H1b: The joint effect of transformational leadership, employee commitment and organizational culture on non-financial organizational performance is significantly higher than individual effect of transformational leadership on non-financial organizational performance. Non-financial performance was the dependent variable, while Transformational leadership, employee commitment and Organizational culture were predictor variables. The results are presented in Table 2

Model Summary ^d										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.565 ^a	.319	.317	.51375	.319	154.448	1	330	.000	
2	.577 ^b	.333	.329	.50925	.014	6.854	1	329	.009	
3	.626 ^c	.391	.386	.48706	.059	31.660	1	328	.000	1.802
a. Predictors: (Constant), Transformational Leadership										
b. Predictors: (Constant), Transformational Leadership, Employee Commitment										
c. Predictors: (Constant), Transformational Leadership, Employee Commitment, Organizational Culture										
d. Dependent Variable: Non-financial performance										
ANOVA ^a										
Model		Sum of Squares		df	Mean Square		F	Sig.		
1	Regression	40.765		1	40.765		154.448	.000 ^b		
	Residual	87.100		330	.264					
	Total	127.865		331						
2	Regression	42.542		2	21.271		82.020	.000 ^c		
	Residual	85.323		329	.259					
	Total	127.865		331						
3	Regression	50.053		3	16.684		70.329	.000 ^d		
	Residual	77.812		328	.237					
	Total	127.865		331						
a. Dependent Variable: Non-financial performance										
b. Predictors: (Constant), Transformational Leadership										
c. Predictors: (Constant), Transformational Leadership, Employee Commitment										
d. Predictors: (Constant), Transformational Leadership, Employee Commitment, Organizational Culture										
Coefficients ^a										
Model		Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics		
		B	Std. Error	Beta				Tolerance	VIF	
1	(Constant)	1.551	.139			11.169	.000			
	Transformational Leadership	.544	.044	.565		12.428	.000	1.000	1.000	
2	(Constant)	1.442	.144			10.015	.000			
	Transformational Leadership	.491	.048	.510		10.260	.000	.822	1.217	
	Employee Commitment	.103	.040	.130		2.618	.009	.822	1.217	
3	(Constant)	1.134	.148			7.659	.000			
	Transformational Leadership	.291	.058	.302		5.020	.000	.513	1.951	
	Employee Commitment	.083	.038	.104		2.189	.029	.814	1.228	
	Organizational Culture	.277	.049	.327		5.627	.000	.549	1.822	
a. Dependent Variable: Non-financial performance										

Table 2: Regression Results for the Joint Effect of Transformational Leadership, Employee Commitment and Organizational Culture on Non-Financial Performance

As shown in Table 2, the joint effect transformational leadership, employee commitment and organizational culture on non-financial performance is statistically significant. The results show that transformational leadership independently explains 31.9% of the variation in non-financial performance ($R^2 = .319$). Transformational leadership and Employee commitment explain 33.3% of the variations in non-financial performance ($R^2 = .333$) and transformational leadership, employee commitment and organizational culture jointly explains 39.1% of the variations in non-financial performance.

Based on the results, the regression model is substituted as follows:

$$Y = 1.134 + .544TL + .103EC + .277OC$$

Where :

Y= Non-Financial Performance

TL= Transformational leadership

EC=Employee commitment

OC= Organizational culture

The fitted model implies that independently, a unit change in transformational leadership, employee commitment and organizational culture jointly leads to .277 changes in non-financial performance which is significant at 0.05 statistical level and therefore supporting the hypothesis.

5. Conclusions and Recommendations of the Study

The results showed significant effect of transformational leadership, employee commitment and organizational culture on both financial and non-financial performance. When leaders act as role model to their supporters, respect, give support and encourage their followers they end up building up trust with their followers. In view of this finding, the hypothesis that the joint effect of transformational leadership, employee commitment and organizational culture on financial organizational performance is significantly higher than individual effect of transformational leadership on financial organizational performance was supported.

A key finding in the study that supports transformational leadership was organizational commitment as a significant predictor of both financial and non-financial performance. The study recommends that organizations need to develop guidelines that allow for continuous change while maintaining the commitment of the employees during the transitional periods. Developing employees is fully committing the workforce to the organization, therefore minimizing turnover intentions. While the study may show that transformational leadership practices were directly related to employee commitment and performance, they inspire a shared vision, challenge the process, encourage the heart, enable others to act, and model the way employees should commit to their tasks; therefore, transformational leadership practices therefore should be modeled towards encouraging organizational commitment.

Fostering commitment do not just occur suddenly; these processes take time and dedication. Building a capacity in the workforce to prepare for transition in commitment will require leadership training, communication, and clear expectations for the leaders and followers. Capacity development within an organization may be challenging to organizations with limited resources and limited time for training initiates. However, having a clear understanding of the developmental and training needs within the workforce may help prepare for a transition in to committed employees that could be critical to their success.

The results of this study suggest that it is critical that Sacco's leaders understand the cultures of their organization and seek to develop values and practices that are supportive of innovation. This can be influenced: through the beliefs and experiences of its members, through beliefs and values of leaders, and through organizational practices. Employee beliefs play a central role in culture change efforts. The study recommends that, for cultural change to succeed, it is essential to shift employees' mind-sets and perceptions so they internalize the new organizational reality and identify with it. Trying to force employees to accept organizational values might result in the development of reactive subcultures and countercultures. Thus, leaders should try to understand organizational culture before trying to fix it or directly manage it.

6. Suggestions for Further Research

The study sought to establish the relationship between transformational leadership, employee commitment, organizational culture and performance of Deposit taking SACCOs in Nairobi City County, Kenya. Future studies could therefore focus on the same study but in other financial institutions such as insurance, MFIs and commercial banks then the results compared to the results of the current study. Further studies should also consider introducing different variables like external environment and organizational factors other than employee commitment and organizational culture in testing for moderating effect. Additionally, further studies should carry out the same study on other counties apart from Nairobi and compare the results for similarities and differences. In addition, the study recommends that future studies collect data on these variables at all-time points and adopt a longitudinal research design. This would ensure causality among these variables.

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