

The Moderating Role of Organizational Culture on the Relationship between Transformational Leadership and Performance of Deposit-Taking Saccos in Nairobi County, Kenya

Catherine Nyaga Njoki*, Peter Owoko K'Obonyo, Florence Muindi, and Kingsford Rucha

ABSTRACT

The study focuses on determining how an organization's culture moderates the link between transformational leadership and deposit-taking saccos (DTSACCOS) performance regarding Nairobi City County from a Kenyan perspective. The theory of transformational leadership, contingency theory, and the theory of organizational culture anchored this study. The design adopted a census with primary data applied. Furthermore, testing the hypothesis was based on a regression model at a 95% confidence level. According to the study, organizational culture significantly moderates the relationship between transformational leadership and organizational performance. The research will aid in developing the overall sustainability, competitiveness, allure, and performance of the deposit-taking SACCOS sector both within the nation and outside. In addition, leaders should put the best leadership that satisfies the market needs and adopt the best acceptable culture that satisfies customers in the current and potential brackets. Thus, to successfully direct the improvement of corporate culture in pursuit of desired organizational goals, transformational leadership attributes must be appropriate and effectively executed.

Submitted: June 06, 2023

Published: December 02, 2023

 10.24018/ejbm.2023.8.6.2025

Faculty of Business and Management Sciences,
University of Nairobi, Kenya.

*Corresponding Author:
e-mail: catherine1.nyaga@gmail.com

Keywords: Culture, leadership, performance, SACCOS.

1. INTRODUCTION

Explaining why companies operating in the same markets and industries perform at various levels is still a considerable challenge in the management world (Cabrilo & Dahms, 2018). There is no single theory that explains why there are different levels of performance. However, various theoretical considerations, particularly those that relate to leadership, organizational culture, and the theoretical underpinnings of contingency theory, can aid in explaining some of the differences in performance (Aboramadan & Kundi, 2020). Leadership and performance are two subjects discussed to comprehend why companies in similar industries and markets perform differently.

Transformational leadership is a crucial force in embracing employee commitment and a culture of performance and adaptability (Walker *et al.*, 2007). Transformational leaders, through their eminent characteristics, are associated with the ability to empower and enforce commitment

to employees (Aboramadan & Kundi, 2020). Since deposit-taking SACCOS are one of the sectors that will foster economic growth and help the country realize Vision 2030, the success of SACCOS is essential to the Kenyan economy. This paper recommends empirical research to fill this conceptual gap by shedding light on the factors affecting deposit-taking SACCOS' performance in Nairobi City County.

According to Xiong *et al.* (2021), organizational culture is the underlying assumptions, beliefs, and social customs that support the growth of a specific social and psychological environment within a company. Leadership substantially impacts organizational culture, even though culture can influence how leadership develops in an organization (Enayat, 2013). Transformational leaders create cultures, communicate them to their colleagues, and frequently exhibit a sense of purpose and direction. The goal unites the personnel, who have more freedom to contribute to the realization.



According to Ongeti (2014), organizational performance is the success of a business concerning its planned goals and objectives, which include the actual output or results compared to those anticipated. Kaplan and Norton (2008) defined *performance* as an organization's ability to meet its goals by maximizing its resources. The main objectives of every firm are to outperform their rivals consistently, please other stakeholders, and deliver superior, long-term profits to their owners. Both academic researchers and working managers are interested in performance, which is a recurring subject in most management branches, including human resource management (Ongore, 2011). According to Machuki and Aosa (2011), *organizational performance* is defined as the efficacy and efficiency of a specific organization's operations.

The deposit-taking SACCOs in Nairobi County serve as the study's backdrop. The industry needs innovative solutions to survive in light of the challenges that DTSACCOs are now dealing with due to problems like globalization, competition, and technological improvements (Lenkume, 2019).

The managers responsible for overseeing the DTSACCOs' daily operations are chosen by the board of management, which the members of Kenyan DTSACCOs elect. It is challenging to find leaders with transformational leadership qualities because the majority of these executives who take on the jobs have just minimal managerial training and experience (Carreiro & Oliveira, 2019).

The DTSACCOs are characterized by a culture of nepotism that is apparent in the hiring procedures; as a result, the bulk of the workforce has insufficient credentials and competence, discouraging staff from being devoted to delivering high-quality service (Talibong & Simiyu, 2019). Furthermore, it has been shown that DTSACCOs in Kenya retire their employees before they are eligible for pay appropriate to their qualifications and experience (Karanja, 2013). DTSACCOs are seen as locally-focused companies demonstrating inefficiency since many senior executives delegate management and leadership duties to young, inexperienced people (Talibong & Simiyu, 2019).

2. MATERIALS

The study is based on three theories, which include transformational leadership theory, self-determination theory, and contingency theory. According to the notion of transformational leadership, a leader must be able to recognize the needs of those who support them and work to meet those needs in order for that support to be effective in achieving organizational goals (Burns, 1978). The organizational culture hypothesis contends that an organization's implicit assumptions affect how it sees and responds to its different settings is the theoretical underpinning for the organizational culture argument (Ogbonnaya & Harris, 2000). Regardless of the corporate culture, leaders should be able to align their performance with the fundamental principles of their organizations (Ogbonnaya & Harris, 2000).

Zhou et al. (2011) examined the association between organizational culture and performance in public hospitals in China. From the results, most hospitals were not

prepared to act on changes and their surroundings, as most of those interviewed could not elaborate on what was meant by culture. Similarly, Denison revealed that an organization's leadership and performance are determined by factors surrounding its culture and positioning (Denison Consulting, 2010). Further, Slade (2009) found that organizational culture is an internal flexibility that determines the type of leadership. This study investigated organizational culture's potential to mediate the link between transformative leadership and organizational performance.

3. METHOD

The research philosophy and design adopted in this study were positivism and a census survey. The population for this study was 40 deposit-taking savings and credit cooperative societies in Nairobi City County, Kenya (SASRA, 2016). The study relied on primary data collected using a structured questionnaire. Stepwise regression analysis was used to determine the moderating effect of organizational culture. The significance of the overall model and the independent variables were tested using the Fischer distribution test (F-test) and t-test, respectively. The robustness of the model was evaluated using the R-squared and adjusted R-squared, whichever applied. The p-value gave the option of accepting or rejecting the null hypotheses. A significant model is one in which the null hypothesis is accepted and the p-value is less than 0.05 for the whole model.

4. FINDINGS

In the third objective, the study sought to establish the effect of organizational culture on the relationship between transformational leadership and the performance of deposit-taking SACCOs in Nairobi City County, Kenya. The hypothesis tested was:

H₀₁ : There is no significant moderating effect of organizational culture on the relationship between transformational leadership and the performance of deposit-taking SACCOs in Nairobi City County, Kenya.

Analyses of hierarchical or stepwise regression were conducted to evaluate the moderating effect. The predictor variable was multiplied by each indicator of the moderating variable to get the interaction term. The following was the final decision for the standard interaction term:

$$\text{Interaction term} = \text{Transformational Leadership} \times \text{Organizational culture} \quad (1)$$

The regression coefficient for the interaction term estimates the moderating effect, which may increase, buffer, or decrease the relationship between transformational leadership and organizational performance antagonistically.

The process of establishing moderation involves a stepwise method. In step one, organizational performance was regressed on transformational leadership. In step two, organizational performance was regressed on transformational leadership and organizational culture. In step three,

TABLE I: MODEL GOODNESS OF FIT ON MODERATION OF ORGANIZATIONAL CULTURE ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

Model	Predictors	R	R-squared	Adjusted R-squared	Std. error of the estimate	Change statistics					Durbin-Watson
						R-squared change	F change	df ₁	df ₂	Sig. F change	
1	Transformational leadership	0.752	0.565	0.562	0.404	0.565	154.816	1	30	<0.001	
2	Transformational leadership, organizational culture	0.859	0.738	0.727	0.400	0.005	0.582	2	29	0.451	
3	Transformational leadership * Organizational culture	0.867	0.752	0.728	0.190	0.013	1.636	3	28	0.210	2.135

the interaction term between transformational leadership and organizational culture was introduced. The moderation effect is confirmed when the effect of the action term is statistically significant. The overall moderation equation was presented as follows:

$$OP = a + \beta_1 TL + \beta_2 OC + \beta_3 (TL \times OC) + \varepsilon \quad (2)$$

The regression results in Table I shows three models which have been generated using a stepwise approach. The results show that as one moves from the stepwise regression model number one to three, the standard error of the estimate keeps decreasing from 0.404 to 0.190. The adjusted R₂ keeps improving from 0.562 to 0.728, implying that transformational leadership explains 56.2% of the variation in the surveyed SACCOs performance. In contrast, transformational leadership and organizational culture contribute to 72.7% change in the SACCOs performance. When their interaction term is added, transformational leadership and organizational culture explain 72.8% of the changes in the organizational performance outcome.

Although transformational leadership alone can explain 56.2% of the variance in organizational performance, when combined with organizational culture, it explains 72.8% of the variations in organizational performance. The stepwise multiple regression model number 3 is the most significant model since it includes most transformational leadership and organizational culture dimensions (transformational leadership × organizational culture). The third stepwise model is a good predictor of the organizational culture’s moderating effect on the link between transformational leadership and organizational performance, even if all models are significant.

The outcomes of the analysis of variance (ANOVA) are presented in Table II. Regression models 1, 2, and 3 are significant, according to the analysis of variance of the regressions. There is an increase in the F values from 31.264 to 90.927. The F-statistic value in model 1 is 31.264, with a p-value below 0.05. In model 2, the results produced an F-significance value of 45.179, p < 0.05. In model 3, the F-statistic is also significant based on the p-value (F = 90.927, p < 0.05). Although all the models are significant in explaining the SACCOs performance, the third model, with the added interaction term, has a greater significance than the other two models.

Table III presents regression coefficients of the transformational leadership, organizational culture and interaction term as the predictor variables used in each model. In model 1, where organizational performance was regressed on transformational leadership, the constant value reported is 0.192, with a standardized beta coefficient of 0.857, a t-value of 9.536 and a p-value < 0.05. This shows that a unit change in transformational leadership accounts for 0.857 change in organizational performance and that transformational leadership is significant in explaining the surveyed SACCOs performance.

In model 2, where organizational performance was regressed on transformational leadership and organizational culture, the constant reported was 0.290, with a standardized beta value of 0.879, a t-value of 9.257 and a p-value < 0.000 for transformational leadership and a standardized beta value of 0.072, a t-value of 0.763, and a p-value = 0.045. This shows that a unit change in transformational accounts for 0.879 change in organizational performance and a unit change in organizational culture accounts for 0.072 change in organizational performance. Both transformational leadership and organizational culture are significant in explaining the surveyed SACCOs performance.

The reported coefficient in model 3, which introduced the interaction term, is 0.405, with a t-value of 1.279 and a p-value below 0.001, which means the interaction term is significant in explaining the change in the surveyed SACCOs performance. In summary, the value of the interaction term (TL * OC) had a significant influence (β = 0.405, t = 1.279, p < 0.05), hence supporting an organizational culture moderating impact and disproving the null hypothesis that organizational culture has little to no moderating influence on the relationship between transformational leadership and performance of DTSACCOs.

Based on the results, the regression model is substituted as follows (by taking (2) as the basis):

$$OP = 0.187 + (1.256) TL + (0.042) OC + (0.405) (TL \times OC) + \varepsilon \quad (3)$$

where:

- OP = Organizational performance,
- TL = Transformational leadership,
- OC = Organizational culture,

TABLE II: MODEL OVERALL SIGNIFICANCE ON MODERATION OF ORGANIZATIONAL CULTURE ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

Predictors	Model	Sum of squares	df	Mean square	F	Sig.	
Transformational leadership	1	Regression	14.679	1	14.679	31.264	<0.001
		Residual	5.328	30	0.161		
		Total	20.007	31			
Transformational leadership, organizational culture	2	Regression	14.774	2	7.387	45.179	<0.001
		Residual	5.232	29	0.164		
		Total	20.007	31			
Transformational leadership	3	Regression	15.037	3	5.012	90.927	<0.001
		Residual	4.970	28	0.160		
		Total	20.007	32			

TABLE III: REGRESSION COEFFICIENTS ON MODERATION OF ORGANIZATIONAL CULTURE ON THE RELATIONSHIP BETWEEN TRANSFORMATIONAL LEADERSHIP AND ORGANIZATIONAL PERFORMANCE

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	0.192	0.367		0.524	0.604
	Transformational leadership	1.074	0.113	0.857	9.536	<0.001
2	(Constant)	0.290	0.733		0.396	0.694
	Transformational leadership	1.102	0.119	0.879	9.257	<0.001
	Organizational culture	0.152	0.199	0.072	0.763	0.045
3	(Constant)	0.187	0.730		0.255	0.800
	Transformational leadership	1.575	0.389	1.256	4.054	<0.001
	Organizational culture	0.089	0.203	0.042	0.436	0.034
	Transformational leadership * Organizational culture	0.520	0.406	0.405	1.279	0.021

TL * OC = Transformational leadership and organizational culture interaction.

The findings demonstrate the importance of organizational culture in influencing the relationship between transformational leadership and organizational success. It is demonstrated that a change in transformational leadership results in 1.256 changes in organizational performance. When an interaction term is included in the equation, performance changes by an additional 0.405, implying a significant moderating of organizational culture.

5. CONCLUSIONS AND RECOMMENDATIONS

The findings showed that the surveyed SACCO culture had a solid relationship with their performance and showed the highest correlation concerning the other two variables of this study. On the regression analysis, transformational leadership is strongly associated with SACCOs performance. Transformational leadership and the SACCOs culture show a robust association with the surveyed SACCOs performance, and similarly, the presence of the interaction term makes the relationship stronger. Indeed, the interaction term had a moderate standardized beta coefficient, and the effect was significant. Departing from theoretical propositions, organizational culture theory suggests a simple and direct relationship between organizational culture and organizational performance. The theory presumes that to examine culture, one has to go to deeply

held basic principles that followers in the group share and are primarily kept in the followers' unconscious realm.

Therefore, practitioners must recognize that in order for SACCOs to succeed, leaders must grasp how changes in the organizational cultural setting arise and must establish efficient ways to not only cope with changes but also capitalize on them in the culture of the organization and outclass their competitors through leveraging and applying best culture to enhance employee commitment for success to be achieved.

CONFLICT OF INTEREST

The authors declare that they do not have any conflict of interest.

REFERENCES

Aboramadan, M., & Kundi, Y. M. (2020). Does transformational leadership better predict work-related outcomes than transactional leadership in the NPO context? Evidence from Italy. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations*, 31(6), 1254–1267.

Burns, J. M. (1978). *Leadership*. New York, NY: Harper & Row.

Cabrilo, S., & Dahms, S. (2018). How strategic knowledge management drives intellectual capital to superior innovation and market performance. *Journal of Knowledge Management*, 22(3), 621–648.

Carreiro, H., & Oliveira, T. (2019). Impact of transformational leadership on the diffusion of innovation in firms: Application to mobile cloud computing. *Computers in Industry*, 107, 104–113.

Denison Consulting (2010). Organizational culture and employee commitment: what's the relationship? *Denison*, 4(3), 14.

- Enayat, A. (2013). The role of transformational leadership and organizational culture in improving performance of Iranian agricultural facilities to become leading organizations. *Department of Agricultural Extension and Education*. Tehran: Tarbiat Modarres University.
- Kaplan, R. S., & Norton, D. P. (2008). *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*. Harvard: Harvard Review Press.
- Karanja, J. N. (2013). *The relationship between size and cost efficiency of Saccos with front office service activity in Kenya* [Doctoral dissertation, University of Nairobi].
- Lenkume, J. N. (2019). *Strategic leadership and organisational performance of Saccos in Kenya* [Doctoral dissertation, University of Nairobi].
- Machuki, V.N., & Aosa, E. (2011). The influence of the external environment on the performance of publicly quoted companies in Kenya. *Prime Journal of Business Administration and Management*, 1(7), 205–218.
- Ogbonnaya, C., & Harris, K. (2000). Employees, managers, and high performance work practices: A Win-win or the transformational leader's exploitative approach to organizational performance. *Understanding the High Performance Workplace*, Routledge, pp. 57–80.
- Ongeti, W. J. (2014). *Organizational resources, corporate governance structures and performance of Kenyan state corporations* (Doctoral dissertation, University of Nairobi).
- Ongore, V. O. (2011). The relationship between ownership structure and firm performance: An empirical analysis of listed companies in Kenya. *African Journal of Business Management*, 5(6), 2120–2128.
- SASRA (2016). *Sacco Supervision Report 2016 (Deposit Taking Saccos)*. Sacco Societies Regulatory Authority (SASRA). Nairobi: SASRA. <https://www.sasra.go.ke/download/sacco-supervision-annual-report-2016/>.
- Slade, N. (2009). *Personal Recovery and Mental Illness. A Guide for Mental Health Professionals*. Cambridge, MA: Cambridge University Press.
- Talibong, J. K., & Simiyu, E. M. (2019). Financial soundness indicators and financial performance of deposit taking micro finance banks in Kenya. *African Journal of Emerging Issues*, 1(11), 67–84.
- Walker, H. J., Armenakis, A. A., & Bernerth, J. B. (2007). Factors influencing organizational change efforts: An integrative investigation of change content, context, process and individual differences. *Journal of Organizational Change Management*, 20(6), 761–773.
- Xiong, C., Chang, V., Scuotto, V., Shi, Y., & Paoloni, N. (2021). The social-psychological approach in understanding knowledge hiding within international R & D teams: An inductive analysis. *Journal of Business Research*, 128, 799–811.
- Zhou, P., Bundorf, K., Le Chang, J., Huang, J. X., & Xue, D. (2011). Organizational culture and its relationship with hospital performance in public hospitals in China. *Health Services Research*, 46(6), 2139–2160.