The Effect of Individualized Consideration and Intellectual Stimulation on Organizational Performance of Commercial State Owned Enterprises in Kenya

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Abstract

There is a limited understanding about the role of leadership on organizational performance in the context of customer service sector. Customer service sector is getting more and more importance in recent years as firms are directing their attention towards proving the best quality of service to their customers along with manufacturing. Therefore, the motivation of this paper is to investigate the impact of leadership behaviour on organizational performance in the context of customer service sector. Data was collected from 170 senior managers from 34 commercial state corporations in Kenya using self-administered questionnaire. Using ordinary linear regression, the results show that individualized consideration had a significant and negative effect on organization performance implying that discouraging individual consideration in a commercially owned enterprise would improve organization performance. However, intellectual stimulation did not have any significant effect on organization performance. The paper recommends that organizations targeting to improve organization performance must work on employee- friendly company culture, degree of employee's inclination to be more productive than non-motivated employees, power of company financial incentives and team work. In addition, they must work towards discouraging delegation of tasks, career mentoring and couching, and creation of new learning opportunities alongside a supportive climate.

Keywords: Intellectual Stimulation, Individualized Consideration, Organizational Performance, State-Owned Enterprises

1. Introduction

The relevant leadership behaviour is crucial to improve awareness creation in organizations (Okibo &Shikanda, 2011). Therefore, the employees' behaviour paths are mostly shaped by the way leaders give support to organizational members and provide a clear direction in regards to guidelines. They further elaborated that a transformational leader has to watch out for prospective needs in admirers, and satisfy higher motives, whilst connecting with the full attributes of the adorers. Leadership as outlined by Northouse (2004), as referred in Samaitan (2014), is a process whereby an individual shapes a group of individuals to attain a common end. Several reasons may be advanced to show that there is a relationship between leadership style and organizational performance.

There is a limited understanding about the role of leadership on organizational performance in the context of customer service sector. Customer service sector is getting more and more importance in recent years as firms are directing their attention towards proving the best quality of service to their customers along with manufacturing. Therefore, the motivation of this paper is to investigate the impact of leadership behaviour on organizational performance in the context of customer service sector. Adequate motivation, suitable work environment, compensation, efficient communication between managers and employees play an important role in promoting this goal.

Dowling (1998) and Megginson et al. (1994) stated that privatization increases the financial performance of newly privatized organizations. Mutugi & Ngugi (2013) noted that in emerging economies, the main push for privatization has been the need for additional capital as well as new investments from other organizations in developed countries. The emerging economies are faced with poor performance of SOEs and have a burden on public expenditures; therefore governments in countries like Kenya were forced to privatize their public sector by donor institutions like the World Bank and the International Monetary Fund (IMF). Privatization is considered as a means of remedy to the state of permanent failures experienced because of their chronic inefficiencies (Chemengich, 2013).

According to Ojokuku et al (2012), leadership style is a key determinant of the success or failure of any organization. A leader is person who influences, directs, and motivates others to perform specific tasks and also inspire his employees for efficient performance towards the accomplishment of the stated corporate objectives. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people. According to Ngambi et al. (2010) and Ngambi (2011), as cited in Jeremy et al. (2011), leadership is a process of influencing others' commitment towards realizing their full potential in achieving a value-added, shared vision, with passion and integrity.

There is a converse relation between the free leadership style and organizational culture. In his study, investigations of the relation between transformational leadership and organizational culture", Aghast (2008), concluded that although the leaders call themselves "transformational", the followers don't accept it. In other words, there is no relation between culture and leadership style. In their study "The investigation of the relation between organizational culture and transformational leadership styles", Rayi and Hosseini (2000), concluded that it is necessary to regard the definition of special leadership styles and application of such styles to organizational culture as the best strategy for increasing organizational performance.

The limited or inconclusive character of research findings in this area suggests the need to investigate further the nature of the relationship between transformational leadership and organizational performance within commercial state corporations in Kenya. This study therefore sought to fill this research gap. The purpose of this paper is to investigate the extent to which intellectual stimulation and individualized consideration affect organizational performance of commercial SOEs in Kenya.

2. Literature Review

Leadership is a communication process of leader and individuals and therefore the effectiveness of an organization depends upon the effective leader and effective leader is that person who has an effective leadership style. Leadership is a very important factor for any organization or group. There are three famous ways in which we can describe leadership from different perspectives (Karamat, 2014).

Creating high-performance workforce has become increasingly important and to do so organization leaders must be able to motivate organizational members to go beyond their task requirements. A vital characteristic of leadership is using human talents to develop them to perform, faith and uprightness in employees and the organization (Daft, 2005). Many new thoughts of leadership have surface - transformational leadership being one of them.

According to Aarons (2006), Leadership is associated with organizational and staff performance. Personal and organizational behaviour related to leadership demands a more candid look at the leadership styles which may have a positive or negative impact on these two variables (Givens, 2008).

There are various ways to understand organization performance but in this thesis it has been judged upon the growth of the company and organizations performance which lead towards the growth. Lot of work has been done on this. The performance is usually evaluated by calculating the values of qualitative and quantitative performance indicators like profit, cost, and clients. It is quite important for a company to determine the relevant indicators how they relate to the company objectives and their dependence on the performed activities. Organization's performance as a whole is an achievement organization in operation, either in relation to financial aspects, marketing, collection and distribution of funds. Performance is a multifaceted construct and therefore multiple measures of performance should be used (Lumpkin and Dess, 1996).

It is very important for organizations to make performance measurement system to evaluate the performance of the employees, which is very helpful to evaluating the achievement of organizational objectives and in developing strategic plans for the organizations (Ittner & Larcker, 1998).

Intellectual stimulation is defined by Judge & Piccolo (2004), as the degree to which the leader challenges assumptions, takes risks and solicits employees ideas, that is intellectual stimulation stimulates and encourages performance among the employees. Al-Tarawneh et al. (2012), noted that transformational leaders need to enable employees achieve the mission by intellectually stimulating them to abandon their old beliefs and assumptions about organizational problems and practices. The transformational leaders who are intellectually stimulating can initiate a change in the company leading to a positive transformation within an organization and significantly lead to greater organizational performance.

A transformational leader brings in change to the entire organization. The leader creates a vision for all his employees within the organization. The transformational leader strives to come up with an organizational culture, new rewarding and performance appraisal systems, together with good policies and strategies in hiring and motivating the employees. Givens (2008) found a positive relationship between transformational leadership and organizational performance.

Judge and Piccolo (2004), defined individualized consideration as the degree to which the leader attends to the needs of each employee, mentors them and listens to their concerns. Anne (2009), asserted that in the recent years, business markets have become volatile and turbulent due to the world economic crisis. It is therefore important for corporate to keep valuable human capital in times of economic crisis and capitalize on available knowledge and experience to minimize costs associated with little levels of commitment resulting in high turnovers. To be able to keep pace with the volatile and turbulent external environment a progressive and adaptive thinking where every employee is a transformational leader focused on simplified team orientation and flexible structures with good communication and sound decision making.

Transformational leadership always has a positive effect on personal outcomes (Samuel, Sleegers & Denessen, 2006). The literature demonstrates that transformational leadership has a positive influence on

commitment, trust, empowerment, job satisfaction, motivation, and self-efficacy beliefs. Theoretical point of view shows this literature review reinforced the conceptual model of transformational leadership proposed by Bass (1985), and showed that transformational leadership is to a great extent associated with personal outcomes.

3. Research Methodology

Hatch & Cunliffe (2006) asserts that positivism research philosophy can be used to investigate what truly happens in organizations through scientific measurement of people and system behaviors. Moreover, Alavi & Carlson (1992), contend that, any knowledge that is not based on positivist thought is scientific and invalid. This research philosophy can be used to investigate the effect of transformational leadership on performance of SOEs in Kenya.

Saunders et al. (2012) and Cooper &Schindler (2008) assert that research design is a blueprint for collection, measurement and analysis of data. . Research design is not related to any particular method of collecting data or any particular type of data. There are three main research designs namely; descriptive, exploratory and explanatory research designs.

This study uses both descriptive and explanatory research designs. On one hand, descriptive research design combined with graphical illustrations will be used to describe various variables of interest. On the other hand, explanatory research design is used to establish the magnitude, direction and significance of various transformational leadership factors on performance of SOEs in Kenya.

Target population is a set of all members of a real or hypothetical set of people, events or subjects to which a researcher wishes to generalize his/her results (Ngechu, 2004). According to State Corporation Advisory Committee (SCAC) SOEs are classified into two categories namely non-commercial and commercial (EOP, 2013). The commercial state corporations are 34. Thus the senior management of these commercial state corporations forms the target population for this study. To the best knowledge of the researcher, the senior management teams with exception of the chief executive officers (CEO) are assumed to be knowledgeable about the type of leadership their CEOs have. This study selected all the five senior management from each SOEs and the total number (170) formed the population of this study.

The sampling frame of this study comprises of 170 senior managers from 34 commercial state corporations in Kenya. This study used both probability and non-probability sampling. Specifically, the study used simple random sampling to select the 120 senior managers (with exception of CEO) of the SOEs and purposive sampling to select five senior managers from each commercial SOE.

This study follows the formula proposed by Yamane (1967) since it is simple to use, it is scientific and can be used in cases of large populations. Thus, to calculate the sample size from 170 senior managers with exception of CEOs of SOEs in Kenya, the study specifies a 5 percent error as shown in equation 3.1.

$$n = N/\{1 + N(e^2)\} \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots ..(3.1)$$

Where n is the sample size, N is the population (170) and e denotes the error (0.05). Applying values into formula specified in equation 3.1 the sample size is:

$$n = 170/\{1 + 170(0.05^2)\} \cong 120 \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots .3.2$$

Equation 3.2 gives sample size of 120 senior managers of SOEs. This sample is a good representation of the populations (Singleton & Straits, 2010). Having calculated the sample size, we now explain on how to select senior management from the 34 SOEs for data gathering.

The study used Management and Leader Questionnaire (MLQ) to collect data from 120 senior managers of SOEs in Kenya to investigate the relationship between transformational leadership style and the financial performance of SOEs in Kenya. In order to obtain data on senior managers (past &present) members of the Top Management Team (TMT) in each SOE were interviewed. TMT members that were interviewed comprised of managers who were occupying positions of senior manager or equivalent as detailed in the cadre of service in SOEs with exception of CEOs. Secondary data was obtained directly from the SOEs and also from SCAC. The questionnaire was administered to the TMT members in each SOE. The questionnaire consists of four sections where section one collected information on the respondents, section two collected data on financial and non-financial indicators of performance, section three collected data on various dimensions of transformational leadership and section four collected data on organizational culture. The five point Likert scale was used.

Pilot study was conducted in order to test the reliability and validity of the research instrument. Out of 120 top managers the study collected data from 12 (10% of the sample) manager so as to pilot test the research instrument. The study used simple random sampling to select the 12manager to be included in the pilot (Saunders et al., 2012). Research assistants visited the selected companies and administered the questionnaires. Once data was collected, it was coded and entered into SPSS. Thereafter, tests for reliability were conducted.

The study conducted a pilot study to test the reliability of the research instrument. The study used Cronbach alpha to test for reliability of the research instrument. The values of Cronbach alpha ranges between zero and one where zero and one indicates very low and high reliability respectively (Saunders et al., 2012). This

study used a cutoff point of 0.7 to indicate that the research instrument is reliable. Cronbach alpha was used to test for reliability of the questionnaire. Cronbach alpha for each construct was computed and the results are discussed as follows. The value of Cronbach alpha for non-financial performance and role of institutions constructs are all greater than 0.7 indicating that the constructs are reliable. This implies that the construct is reliable.

The study further used non-financial performance measures as dependent variables and performed a regression analysis based on the independent variables specified in equation 3.5. The analysis was done in SPSS version 22.

4. Results And Findings

4.1 General Descriptive Information

A majority (42 percent) of the enterprises were established back in 1978, whereas 8.6 percent were established in 1999. Other 4.9 percent were established in 1994. This information is summarized in Table 4.1. The age of these organizations is a testimony that they have been around long enough to set up the infrastructure necessary for the well-functioning and success of the organizations.

A huge chunk of the employees were above 40 years of age. Out of the total respondents, 47 percent were between 40-49 years of age, 34 percent between 30-39 years of age and 14 percent were between 50-59 years of age. Only 6 percent were between 21-29 years of age. This indicates a normal distribution of employees as expected across all the age groups, with majority of the work force (81 percent) being between 30-49 years of age. With a paltry 6 percent of employees in commercial state organizations falling within the age bracket of 21-29 years, it says about the current state of employment in the country.

The study therefore conclusively finds the employment ratio of 31 women for every 69 men in leadership positions in commercial state owned organizations to be well balanced, and does not therefore in any way consider the findings skewed in terms of gender. This also testifies of the transformational leadership being exercised in various government parastatals that does not discriminate the gender of a person in granting them leadership roles as opposed to their qualifications and capabilities.

Majority of 49 percent held a bachelor's degree, followed by 41 percent who held a Master's Degree qualification. There was no respondent with a PhD qualification, and 9 percent of the respondents had neither a Bachelor's Degree nor a Master's Degree. Results show that a majority of 8.75 percent of the respondents had worked in their current organization for a period of 10 years. About 48 percent of the employees had worked in their organization for a period above 10 years. Only 2.5 percent of the respondents had worked in their organization for 32 years. The paper can conclude that the turnover is relatively low.

4.2 Factor Analysis Results

Factor analysis was carried out on the organizational performance, which in this case is the dependent variable of the study. In the analysis of the study, financial performance and non-financial performance of the organization, and role of institutions in management are used as a proxy of organizational performance (OP). Factor analysis was carried out for both non-financial performance and role of selected number of government institutions in the management and performance of state owned commercial parastatals.

4.2.1   Factor Analysis results for Non-Financial Performance

The KMO test and the Bartlett's Sphericity tests were carried out to ascertain the suitability of factor analysis in reduction of items under the non-financial performance construct to the statistical instrument being administered. As shown in table 4.3 below, KMO value was 0.843, which is very close to one, indicating that factor analysis was useful for the data items under the non-financial performance construct. The chi square index for Bartlett's Test was 256.352 with a significant p value of 0.000, a clear indication that data reduction is an important step in analysis of impact transformational leadership on performance of commercial state corporations. The 0.000 p-value shows that the variable reduction exercise is a highly statistically significant procedure, since most of the data variable items under non-financial performance construct of organizational performance are highly correlated.

Initial results indicate that all data items under the non-financial performance construct performance had factor loadings greater than 0.5 indicating that they were strongly related with either the first component one or the second component. Under the first component, Success rate, Customer satisfaction, Adaptation to changing environmental conditions, Employee satisfaction, Cost performance, Business growth, and Reputation had 0.626, 0.715, 0.710, 0.842, 0.719, 0.690, and 0.813 factor loadings respectively. On the other hand, the second component had Product quality and Level of innovation with 0.558 and 0.735 respectively as the only data items with factor loadings greater than 0.5. The results in Table 4.6 are an indication that there was a dimension to non-financial performance.

4.2.2   Factor Analysis for Institution performance

The KMO test and the Bartlett's sphericity tests were carried out to ascertain the suitability of factor analysis in

reduction of items that build up the institution construct, and to know the relevance of the questions under within the statistical instrument being administered. As shown in table 4.7 below, KMO value was 0.627, which is greater than 0.5, clearly indicating that factor analysis was highly needed to reduce the number of data items under the institution performance construct. The chi square index for Bartlett's Test was 80.914 with a significant p value of 0.000. This was a clear indication that data reduction for the institution performance construct was an important step in analysis of the impact of transformational leadership on performance of commercial state corporations. To be able to compute the organization performance for the analysis of impact of transformational leadership in state owned commercial enterprises in Kenya, an average was obtained for non-financial performance construct and institution role construct data items. The command for the execution was as shown in equation 4.1.

4.3 Effect of Intellectual Stimulation and Individualized Consideration on Organizational Performance

Using SPSS 22 computer program to do the calculations, the KMO measure of sampling adequacy was 0.894 and Chi-square value of Bartlett's test of Sphericity was 383.419. Therefore, with KMO figure very close to one and chi-square figure of Bartlett's Test being significant ($p < 0.01$), we conclude that data reduction (factor analysis) is useful for the data items under intellectual stimulation construct. This is because the findings reveal that the degree of common variance between the seven variables is high. Therefore carrying out factor analysis will give factor extractions that account for high level of variances in intellectual stimulation.

The initial results indicate that all data items under the intellectual stimulation construct had factor loadings greater than 0.5 indicating that they were strongly related with either the first component one or the second component. Under the first component, data items IS-1, IM-2, IM-5, IM-6 and IM-7 had component one factor loadings of 0.763, 0.781, 0.844, 0.724, and 0.865 respectively, while the remaining two data items IM-3 and IM-4 had 0.807 and 0.516 factor loadings respectively for the second component. The results in table 4.24 below is a clear indication that the data item reduction had a huge dimension to institution performance construct with regard to analyzing impact of transformational leadership on organizational performance.

Results reveals that all data items in intellectual stimulation construct of transformational leadership are suitable to be included in the analysis, given all of them had factor loadings of more than 0.5. The findings further reveal that all the seven data items had factor loadings greater than 0.5 for both component 1 and 2, an indication the first two components had high concentration of data items, making them eligible to be used in analysis of the study. However, there was need to rotate the matrix and get a balanced data item mix for the two components. This is because rotating the matrix aligns data items with the rightful components that match, making it easier to settle for the components with the highest concentration of data item factor loadings. Rotating the component matrix gave results as shown in table 4.25.

All the 7 data items under intellectual stimulation construct of transformational leadership had factor loadings greater than 0.5 either under component one or two, which is an indicator for strong correlation. Under component one, there were data items IS-1, IS-3, IS-4, IS-5, IS-6, and IS-7 with factor loadings of 0.870, 0.866, 0.843, 0.863, 0.906, and 0.813 respectively, while component two IS-2data item with factor loadings of 0.990. This was an indication that there was a dimension to intellectual stimulation. This is because components one and two have higher factor concentrations of all the data items in the idealized influence construct.

Pearson correlation coefficient was used to examine the relationship between intellectual stimulation and the performance of commercial state organizations in Kenya. As shown in Table 4.27, the Pearson correlation coefficient was 0.062 and was statistically insignificant even at 10 percent level ($p > 0.10$). We therefore conclude that even though the relationship between intellectual stimulation and organizational performance was positive, it was not statistically different from zero. With a p-value of 0.35, the coefficient of intellectual stimulation (0.938) suggests that the positive relationship is statistically not different from zero. This finding suggest acceptance of the null hypothesis that intellectual stimulation does not influence organizational performance of commercial SOEs in Kenya.

The KMO Measure of Sampling Adequacy was 0.819 which was very close to one, suggesting that factor analysis was useful for the data items under individualised consideration construct. This finding was complemented by the Bartlett's Test of Sphericity which had a chi-square figure of 225.734 which was statistically significant ($p < 0.001$). The initial results indicated that all data items under the individualized consideration construct had factor loadings greater than 0.5, which is an indication that they were strongly related with the first component. The initial component matrix results show a bizarre occurrence where only one component was extracted, because the first component had all individual consideration construct data items with factor loadings way above 0.5. The factor loadings were 0.814, 0.823, 0.850, 0.835 and 0.814 for IC-1, IC-2, IC-3, IC-4 and IC-5 data items respectively. The results are a clear indication that the data item reduction had a huge dimension to institution performance construct with regard to analyzing impact of transformational leadership on organizational performance.

However, rotation of the initial component matrix gave results as shown in table 4.9 below. As the table

clearly indicates, there was no significant change in the factor loadings, as all the data items, factor loadings, and the only component extracted remained unchanged. All the data items under individualized consideration construct had factor loadings greater than 0.5 under component one, a clear indication that there is a strong correlation between data items. As it is clearly seen in the table 4.31, the data items IC-1, IC-2, IC-3, IC-4, and IC-5 had factor loadings of 0.814, 0.823, 0.850, 0.835, and 0.814 respectively. The results obtained in the component matrix therefore suggest that there is a dimension to individualized consideration construct of the transformational leadership impact on organizational performance.

Pearson correlation coefficient was used to examine the relationship between organizational performance and explanatory variables. In addressing the first objective of the study, Pearson correlation coefficient was used to examine the relationship between idealized influence construct of transformational leadership and the performance of commercial state organizations in Kenya. The Pearson Correlation coefficient between individualized consideration and organizational performance was 0.214 and the P-value was 0.048. This indicates that organizational performance is positively related individualized consideration.

The results for the effect of individualized consideration on organization performance show that the coefficient for individualized consideration was -2.487 with a p-value of 0.09 (table 4.34). The significant p-value (at 10 percent level) implies that individualized consideration negatively influences organizational performance. This finding suggests that we reject the null hypothesis that individualized consideration does not affect organizational performance of commercial SOEs in Kenya.

5. Conclusions and Recommendations

The objective of the study was to examine the effect of the intellectual stimulation and individualized consideration on organizational performance of commercial state owned enterprises in Kenya. Data was collected from 170 senior managers from 34 commercial state corporations in Kenya using self-administered questionnaire. Using ordinary linear regression, the results show that individualized consideration had a significant and negative effect on organization performance implying that discouraging individual consideration in a commercially owned enterprise would improve organization performance. However, intellectual stimulation did not have any significant effect on organization performance.

Some of the measures used to measure intellectual performance include ability to develop competence followers and stimulate creative thinking to generate innovative ideas, listening to subordinates ideas, involving employees in the process of decision making and problem solving, embracing and encouraging change, intellectually creating unity through diversity, inciting employees to be innovative, and approaching old situations in new ways. However, the regression results show that even though the relationship between intellectual stimulation and organization performance was positive, the relationship was not statistically different from zero. Individualized consideration was found to negatively influence organization performance. More specifically, deterioration of individualized consideration (Degree of delegation of tasks and monitoring them, degree of career mentoring and couching, ability to create new learning opportunities along with a supportive climate, and individualized consideration of each member of the team) by one percentage point, organization performance improves by 2.487 percentage points.

The study recommended that organizations targeting to improve organization performance must work on employee- friendly company culture, degree of employee's inclination to be more productive than non-motivated employees, power of company financial incentives and team work. In addition, they must work towards discouraging delegation of tasks, career mentoring and couching, and creation of new learning opportunities alongside a supportive climate.

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Appendices

Table 1: Component Matrix for Intellectual Stimulation

	Component One	**Component Two**
IS-1	0.867	-0.074
IS-2	0.105	0.985
IS-3	0.862	-0.093
IS-4	0.835	-0.148
IS-5	0.868	0.035
IS-6	0.912	0.063
IS-7	0.821	0.093

Table 2: Rotated Component Matrix for Intellectual Stimulation

	Component One	**Component Two**
IS-1	0.870	-0.014
IS-2	0.037	0.990
IS-3	0.866	-0.034
IS-4	0.843	-0.090
IS-5	0.863	0.094
IS-6	0.906	0.125
IS-7	0.813	0.149

Table 3: Correlation between intellectual stimulation and organizational performance

		Intellectual Stimulation
Organizational Performance	Pearson Correlation	0.062
	Sig. (2-tailed)	0.568
	N	86

Table 4: Effect of Intellectual Stimulation on Organization performance

Parameter	Estimate	Standard Error	Significance
Intellectual Stimulation	0.938	1.007	0.35

Table 5: Component Matrix for Individualized Consideration

	Component One
IC-1	0.814
IC-2	0.823
IC-3	0.850
IC-4	0.835
IC-5	0.814

Table 6: Rotated Component Matrix for Individualized Consideration

Individualized Consideration	Component One
IC-1	0.814
IC-2	0.823
IC-3	0.850
IC-4	0.835
IC-5	0.814

Table 7: Correlation between individualized consideration and organizational performance

		Individualized Consideration
Organizational Performance	Pearson Correlation	0.214
	Sig. (2-tailed)	0.048
	N	86

Table 8: Effect of individualized consideration on organization performance

Parameter	Estimate	Standard Error	Significance
Individualised Consideration	-2.487	1.452	0.09