

The Relationship of Organizational Culture and Return on Assets of large Manufacturing Firms in Kenya

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Abstract- The general objective of this study was to determine the effect of organization culture on return on assets of large manufacturing firms in Kenya. The specific objective of this study was to determine the influence of organizational culture on return on assets of large manufacturing firms in Kenya. The study was a cross sectional survey targeting 102 large manufacturing firms and the response rate was from 94 firms. The data was analyzed using Statistical Package for Social Sciences. Null hypothesis was tested and results indicated that organizational culture had influence on return on assets. The study was limited in that change of variables of study was not monitored or observed over time as would be the case with longitudinal studies.

Index Terms- Organizational culture, Return on assets (ROA), Manufacturing firms, Performance, power distance

I. INTRODUCTION

There have been debate whether organizational culture influence return on assets or not. The study aimed at establishing the position regarding this debate in Kenya large manufacturing firms. Organizational culture is an idea in the field of organizational studies management which describes the psychology, attitudes, experiences, beliefs and values (Schein, 2009).. This study used return on assets as measure of performance. The Kenya manufacturing sector decelerated from an expansion of 3.4 percent in 2011 to a growth rate of 3.1 percent in 2012. The slower growth was due to high cost of production, stiff competition from imported goods, high cost of credit and political uncertainty due to the 2013 general elections (Kenya National Bureau of Statistics (KNBS), 2013). Manufacturing exports are targeted at both regional markets, including the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) as well as European and American markets. Kenyan manufacturers have in recent years through African Growth Opportunity Act (AGOA) and associated export processing zones, increased exports of textiles, mainly targeting the US market.

Karabag and Berggren (2013) study, based on 1,000 largest manufacturing firms in Turkey found that firm related factors did not significantly influence performance, instead factors related to industry culture and business groups membership were the strongest determinants of firm perspective. Chen (2010) showed that firm factors explained a substantial part of Korean and Taiwan firm performance. Review of previous studies indicates they have been conflicting results and this study sought

to determine the relationship of organizational culture and return on assets of large manufacturing firms in Kenya.

II. RESEARCH OBJECTIVE

The specific objective was to determine the influence of organizational culture on return on assets of large manufacturing firms in Kenya.

III. LITERATURE REVIEW

Organizational Culture and Performance

Organizational culture is an idea in the field of organizational studies management which describes the psychology, attitudes, experiences, beliefs and values (personal and cultural values) of an organization (Schein, 2009). One of the major reasons for the widespread popularity and interest in organization culture stems from the argument (or assumption) that certain organizational cultures lead to superior organizational financial performance.

Cameron and Quinn (2005), emphasize that the success of organizations is not only determined by external conditions but concluded that the remarkable and sustained success of some US companies “has had less to do with market forces than with company values” (Cameron & Quinn, 2005, p. 4).

O’Cass and Viet (2007), suggest that organizations with an innovative culture will attain better performance not only through getting feedback from customers and their present competitors but also by means of the organization's capability for creative extension of unique methods for delivering special value to customers. More than 60 research studies were conducted between 1990 and 2007, which covered more than 7,600 small business units and companies to find out the cultural impact on the organizational performance (Gallagher, 2007). Results of these studies showed positive association between strong culture and performance. Fazli and Alishahi (2012) study found that culture, strategy and knowledge management had positive influence on performance.

Newbert (2007) categorized theoretical approaches into four types resource heterogeneity, organizing approach, conceptual-level, and dynamic capabilities. The resource heterogeneity approach argues that a specific resource, capability, or core competence controlled by a firm, affects its competitive advantage or performance. Henderson and Cockburn (1994), Carmeli and Tishler (2004), studies of local government authorities in Israel identified that organizational culture and perceived organizational reputation were the two most significant variables relating to organizational performance in the Israel

government authorities. Organizational culture refers to the underlying values, beliefs, and principles that serve as foundation for the organization's management system as well as the set of management practices and behaviors that both exemplify and reinforce those basic principles (Denison, 1990). Organizational culture serves as a function to explain the type of activity that the organization is engaged upon and the lifecycle stage that the organization has reached.

Zheng, et al., (2010) also describes organizational culture as a mode, composed by some basic assumptions and the assumptions are found and created gradually by a certain group in the process of exploring the method of adapting to external environment and solving internal interconnected system. Internal integration is the socialization of new members in the organizations, creating the new boundaries of the organization and the feeling of identity among personnel and commitment to the organization.

Hofstede (1980), used the gathered data from International Business Machines (IBM) employees from more than 50 countries and classified organizational culture into four dimensions; power distance (the degree in which employees and management have distant relationship, formal and informal); individualism (the degree in which people may create difference between interest of organization and self-interest); uncertainty avoidance (the level in which people are willing to mitigate the uncertainty and tolerant of ambiguity); and masculinity (the level in which success is defined as the ambition, challenge and insolence, rather than caring and promotion). Denison (1984) used data from 34 American firms on cultural performance over a period of five years and scrutinized the characteristics of organizational culture and tracked the performance over time in these firms. Denison (1984) found that organizations that have participative corporate cultures and well organized work places had a better performance records than those that did not.

Companies with participative culture had a ROI that averaged nearly twice as high as those in firms with less efficient cultures. Theorists also argue that SCA arises from the formation of organizational competencies, which are both superior and incorrectly imitable by competitors (Saa-Pere, et al., 2002). Practitioners and academics suggested that the performance of an organization is dependent on the values of the culture (Denison, 1990). In Denison's model, comparisons of organizations based on relatively more "surface-level" values and their manifest practices are made. Such values are deemed both more accessible than the assumptions and more reliable than the artifacts (Denison, 1990).

Denison (1990) organizational culture model was based on four cultural traits involvement, consistency, adaptability, and mission that had been shown in the literature to have an influence on organizational performance (Denison, 1990). The four traits of organizational culture in Denison's framework was that effective organizations empower their people, build their organizations around teams, and develop human capability at all levels. Olanipekun, et al., (2013), study on quantity surveying firms in Nigeria found that organization culture influenced performance

Conceptual Hypothesis

The conceptual hypothesis for the study was

Organizational culture does not influence return on assets of large manufacturing firms in Kenya.

IV. RESEARCH METHODOLOGY

This study was based on the positivist paradigm because it had predefined hypothesis. The study was a cross sectional survey to collect data at particular time rather than over a period of time. The population of the study was all large manufacturing firms in Kenya (KAM 2011); there were 102 large manufacturing firms in Kenya. In determining the size of the firm, several different measures have been used and accepted as appropriate. They included turnover, capital employed, value of output, asset size and employment level. The indicators of large manufacturing firms in Kenya include a firm with more than 50 employees (Awino, 2007); KIRDI (2007); (Aosa, 1992), sales per employee KShs 60,000 and sales turnover of excess of KShs 400 million (Waweru, 2008).

The study used the number of employees to determine the size of the firm. Firms with more than 50 employees are considered large (Awino, 2007, KIRDI, 2007, Aosa, 1992). The use of number of employees is considered most appropriate since the studies were conducted in Kenya under similar conditions. Basing on the number of employees out of 627 manufacturing firms in Kenya, there are 102 large manufacturing firms with over 50 employees (KAM, 2011) and this formed the target population and the study used census survey. The study used both primary and secondary data; the primary data was collected using questionnaire. Questionnaire was delivered to top level managers and middle level managers which included Chief Executive Officers (CEOs)/managing directors and head of departments. Data was analyzed using Statistical Package for Social Sciences (SPSS) through a combination of both descriptive and inferential statistics. The F test of significance was performed to determine if the variables significantly contributed to the prediction of the dependent variable. Overall significance used F-test and p-values. When p-value ≤ 0.05 , the null hypotheses were rejected, otherwise they were not rejected. To test individual significance, t-test and p-values were used using the same level of significance ($\alpha = 0.05$).

The data was subjected to reliability tests to check consistency of the measurement set. Reliability was operationalized as internal consistency and established through computation of Cronbach's alpha coefficient, where all the variables had Cronbach's alpha coefficient of more than 0.70 and therefore the data was reliable. Content validity was tested through expert judgment comprising of managers in manufacturing firms and scholars in strategic management. The relationship of dependent variable return on assets (ROA) and organizational culture (OC) is as follows. Model : $ROA = \beta_0 + \beta_1 OC + \epsilon$ where β_0 is the constant and β_1 is the coefficient (slope or gradient) and ϵ is the error term.

V. RESULTS AND DISCUSSION

The specific objective was to determine the influence of organizational culture on return on assets of large manufacturing firms. To test this objective, null hypothesis; organizational

culture does not influence return on assets of large manufacturing firms was tested at 0.05 significance level. Table 1 below indicates relationship between organizational culture and return on assets.

The objective of the study was to determine the influence of organizational culture on performance of large manufacturing firms. To test this objective, null hypothesis; organizational culture does not influence performance of large manufacturing firms was tested at 0.05 significance level. Table 1 indicates relationship of organization culture and performance measured in terms of ROA. The coefficient of determination was 0.072 indicating that organization culture explained 7.2 percent of variation in ROA in large manufacturing firms in Kenya. The remaining 92.8 percent was explained by other variables not within this study.

The overall test of significance using F-value statistic was 7.168 which was significant because p-value (0.009) was less than 0.05 significance level and the null hypothesis that organizational culture does not influence performance with respect to ROA of large manufacturing firms at 0.05 significance level was consequently rejected. This means culture significantly influences ROA. In order to establish individual significance t-test was carried out.

Further, Table 1 indicates that the constant coefficient was not significant but the organizational culture coefficient was significant

$$ROA = 0.038 OC + 0.009$$

This implies that a unit marginal change in organization culture results to increase in ROA of large manufacturing firms by Kshs 0.038. When organization culture is equal to zero there is no effect on ROA. This implies that the organization should emphasize on having the appropriate culture to enhance the organizational performance.

Table 1: Relationship Between Organization Culture and Return on Assets

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	
1	.269 ^a	.072	.062		.06930	
a. Predictors: (Constant), Organization Culture						
Model	Sum of Squares	df	Mean Square	F-value	Sig.	
1	Regression	.034	1	.034	7.168	.009 ^b
	Residual	.442	92	.005		
	Total	.476	93			
a. Dependent Variable: ROA						
b. Predictors: (Constant), Organization Culture						
Model		Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error			
1	(Constant)	-.046	.058		-.795	.428
	Organization Culture	.038	.014	.269	2.677	.009

Dependent variable ROA

The results were inconsistent with Ogolla (2012) who found that ROA was not related to the organization configuration in the banking industry. The results were also inconsistent with Yin-His (2012) study that found that culture had no impact on financial performance. The results are consistent with Fazil and Alishahi (2012) study which found that culture had positive influence on performance. Similarly, Aluko (2003) study of Nigeria textiles found that culture had significant positive influence on organization performance.

VI. CONCLUSION

The study established that organization culture did explain significantly the variation in ROA of large manufacturing firms in Kenya. The management of manufacturing firms should ensure they have an organization culture that will positively contribute to the ROA.

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