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ABSTRACT

The purpose of this study was to establish the relationship between organizational culture and performance of commercial banks in Kenya. The banking sector operates in a dynamic environment and performance has proved to be a daunting task in the turbulent and dynamic environment of commercial banks. The general objective of this study was to establish the effect of organizational culture on organizational performance of commercial banks in Kenya. The specific objectives were to determine the effect of adhocracy culture, clan culture, hierarchy culture and market culture on performance of commercial banks in Kenya. The theoretical review covered the Competing Values Framework, Schein's organizational culture theory, Max Weber bureaucracy theory and the Balance Scorecard theory. Descriptive research design was used to establish the relationship between the independent variable and the dependent variable. The target population was 86 respondents from commercial banks in Kenya from which a sample size of 70 was drawn. Primary data was collected by use of structured questionnaires. Data was analysed using SPSS and descriptive and inferential statistics were generated. The study found out that there was a positive significant relationship between organizational culture and performance of commercial banks in Kenya. The study concluded that adhocracy culture, clan culture, hierarchy culture and market culture had positive significant effect on performance of commercial banks in Kenya. The study concluded that managers should encourage adhocracy culture, clan culture, hierarchy culture and market culture so as to increase the performance of commercial banks in Kenya.

Key words: *Adhocracy, Clan, Culture, Hierarchy, Market, Performance*

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INTRODUCTION

World over, the dramatic growth in new products, markets, technology advancement, and robust competition has created dynamic global business environment (Arayesh, Golmohammadi, Nekooeezadeh, & Mansouri, 2018). Consumers' expectations and behaviors are also shifting making many businesses struggle to survive in the dynamic global environment. Financial institutions operate in a very dynamic environment and are constantly under pressure to improve performance and create a sustainable competitive advantage. Organizational performance is when an organization achieves its desired goals and objectives. According to Owino and Kibera (2019), Organizational performance relates to the results and outcomes the top management of the firm plans to achieve. Organizational performance is classified in two dimensions that is financial and non- financial. It can therefore be measured by both financial and non- financial indicators. The Balance Scorecard is a widely used strategy management tool for measuring both the financial and non-financial variables of organizational performance. Osewe (2019) posits that more than 50% of the Fortune 500 companies adopt the BSC or its variations as a main performance measurement and strategic management tool. The balance scorecard overcomes the inadequacies of the traditional financial-based performance measurement tools. According to Alshehhi et al. (2021), the financial goals have to do with shareholder value, revenue growth, profitability, and sales volume while non-financial measures may include customer satisfaction, internal business processes, quality, innovation and learning, job satisfaction, organizational commitment, and employee turnover.

Organizational culture includes the shared beliefs, norms and values within an organization. It defines the behavior and attitude in an organization. According to Shein (2016), organizational culture is a set of shared values, beliefs and norms that influence the way employees think, feel and behave in the workplace. It determines how an organization and its employees respond to the external and internal environment. Organizational culture is a significant influence of organizational performance as it can either facilitate or impede performance. It sets the foundation of organizational performance as it is the bedrock on which values, formal norms affecting goals and objectives are anchored. According to Ngara (2018), dimensions of culture is central to all aspects of organizational life as organizational culture forms the integrative means of regulating the behavior of organization's members and permeates all its activities, as a specific catalyst for growth and development of the organization. For organizational goals and objectives to be implemented successfully, it must also fully align with the organizational culture. Ineffective organizational culture and poor cultural integration in an organization affect organizational performance. Firms that are successful in aligning their strategy and structure to organizational culture create competitive advantage that consequently leads to long-term performance (Owino & Kibera, 2019).

In the prevailing era of globalization, organizational success not only depends on efficient utilization of resources and broad vision strategies but also on strong organizational culture in order to achieve real organizational success and glory (Misigo, 2020). In 2017, Amazon, the largest e-commerce retailer in the US through its Growth strategy acquired Whole Foods Market. However, the M&A encountered challenges as a result of culture misalignment as the two cultures were not compatible leading to a culture clash. The two companies may have seen value in capitalizing on each other's strengths, but they failed to investigate their cultural compatibility beforehand. When tight and loose cultures merge, there is a good chance that they will clash (Gelfand et al., 2018).

Trivedi (2017) suggested that Blackberry failure can be attributed to the company's lack of an innovative culture as it failed to adapt to the changing needs in the industry. Blackberry, a multinational and one of the leading pioneers of smartphones occupying 43% of the smartphone market in the US and 20% globally was one of the most severe organizational failures when it recently became obsolete. Blackberry became complacent and failed to innovate while operating in a very competitive industry. Their competitors like Apple and Samsung stressed on being innovative to satisfy the changing needs and trends of the industry and their consumers. According to Valencia, Jiménez and Valle (2016), organizational culture can both stimulate or restrain innovation, and therefore affect company performance.

In Africa, according to Allio (2016), 57 percent of food manufacturing firms in Zimbabwe failed to attain their goals and objectives for the past three years due to poor organizational culture. In Ghana, Ahiabor (2016) conducted a study that aimed to investigate the impact of documented corporate culture on the ultimate productivity of firms in Ghana by using the case of Vodafone, a telecommunication firm. Based on the research study findings, it was concluded that there exists a positive correlation between corporate culture and productivity of any organization as evidenced by the numerous awards and accolades won by Vodafone. Chukwu & Aguwamba (2017) argued that Nigerian banks underperformance and massive failure was due to the fact that they do not operate under strong values of corporate culture. Aketch et al. (2017) argued SMEs in Uganda continued to face high failure rates and sought to establish the relationship between organizational culture and performance of SMEs in Uganda. The study found organizational culture to be a critical resource that can be used to enhance performance.

In Kenya, Central Bank of Kenya annual supervisory report noted that environmental turbulence has not spared the financial sector in the country. This scenario has been exacerbated by heightening technology-based competition, a hike in operational costs due to the sluggish growth of economy, reduced cost of borrowing, bad debts, capped interest rates among others (CBK, 2020). The continuous changes in consumer preferences, emergence of innovative financial products and services are changing the traditional landscape of the banking sector in Kenya. Ntongai (2019) posits that the banking environment in Kenya continues to change and the unpredictability of this discontinuous change makes the environment even more complex. Management of commercial banks in Kenya have also sought for competitiveness through cultivating an innovative culture to enhance organizational performance. For instance, Kenya Commercial Bank in 2015 launched KCB Mpesa, adopted a unep fi global banking principles in 2018 and launched inua program. In 2020, Absa Bank rebranded from an elitist Barclays bank whose model previously targeted top clients to now going the mass-market way, introducing new products friendly to small businesses and households alike (Mungai, 2020). Even after rebranding, Absa reported net increase of Non-Performing Loan from 2.8% in 2019 to 3.0% in 2020.

Statement of the Problem

According to cytonn report (2020), Kenya's listed banks recorded a negative EPS growth of 0.8% in FY'2017 and a weighted decline of 26.8% in FY'2020. Deterioration of asset quality and NPLs also remains a concern within the banking sector as NPL ratio for the listed banks rose to 12.4% in FY'2017, from 10.9% in FY'2016 and rose to 13.5% in FY'2020 higher than the 5-year average of 9.9%. Further, with rising operating expenses and reduced margins, the sector has witnessed mergers, acquisitions, re-engineering and restructuring including downsizing of bank branches and employee lay-offs to keep them afloat.

Organizational culture has been identified as an important intangible resource and a barrier to imitation with powerful effects on performance (Owino & Kibera, 2019). Organizational culture is a predominant factor and key element in achieving organizational performance and can therefore not be overlooked. Awino (2020) found that only adhocracy and bureaucratic culture had a significant positive influence on operational performance.

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Owino & Kibera (2019) found that organizational culture is a major source of sustainable competitive advantage in the microfinance industry. Ngara (2018) found a strong positive correlation between culture and organizational performance at KPLC. Thus, there was an overriding need to establish the effect of organizational culture on performance of commercial banks in Kenya.

Objectives of the Study

The general objective of the study was to investigate the effect of organizational culture on performance of commercial banks in Kenya. The study was guided by the following specific objectives;

- To establish the effect of adhocracy culture on organizational performance in commercial banks in Kenya.
- To determine the effect of clan culture on organizational performance in commercial banks in Kenya.
- To investigate the effect of hierarchy culture on organizational performance in commercial banks in Kenya
- To assess the effect of market culture on organizational performance in commercial banks in Kenya

LITERATURE REVIEW

The study was anchored on the competing values framework, Schein's organizational culture theory, Max Weber bureaucratic theory and balance scorecard theory.

The Competing Values Framework (CVF)

The competing values theory assumes that organizational complexity breeds different types of culture and a single type of culture cannot distinguish an organization (Choi et al., 2010). The CVF model therefore categorizes organizational culture into four typologies namely Clan culture, adhocracy culture, Hierarchy culture and Market culture. According to Cameron and Quinn (1999) there are two dimensions used to categorize culture into their four typologies. One is according to their degree of flexibility and control or stability and the other factor is according to internal focus versus external orientation. According to the model, clan culture has a high degree of flexibility and is internally focused. This organizational culture attributes include team work, collaborativeness, cohesiveness, flexibility, open communication and consensus decision making. Hierarchy culture has a high degree of control and is internally focused. Organizations exhibiting this type of culture emphasize security of tenure, predictability, and compliance to rules and regulations (Owino & Kibera, 2019).

Schein's organizational culture theory

Organizations do not develop a culture in a single day but over a long period of time through employees past experiences and various changes, adaption to their external environment and solving organizational problems. Employees gained from their past experiences while practicing it every day thus forming the culture of the workplace whereas new employees strived hard to adjust to the new culture. Schein believed that there are three levels in an organization culture through which the cultural phenomena was visible to the observer, from the most visible to the least visible. Schein (2009) argues that organizational culture is complex and deep, and one should be aware that culture exists at different levels being both visible and invisible. According to Mose (2017) they include aspects such as architecture, office design, language, dress code, rituals and celebrations. Schein (1980) suggested artifacts had little insight into the company's culture and therefore altering them would have insignificant cultural change. The next level is the espoused values which constitutes the organization's stated values and rules of behaviours which defines what is acceptable and what is not.

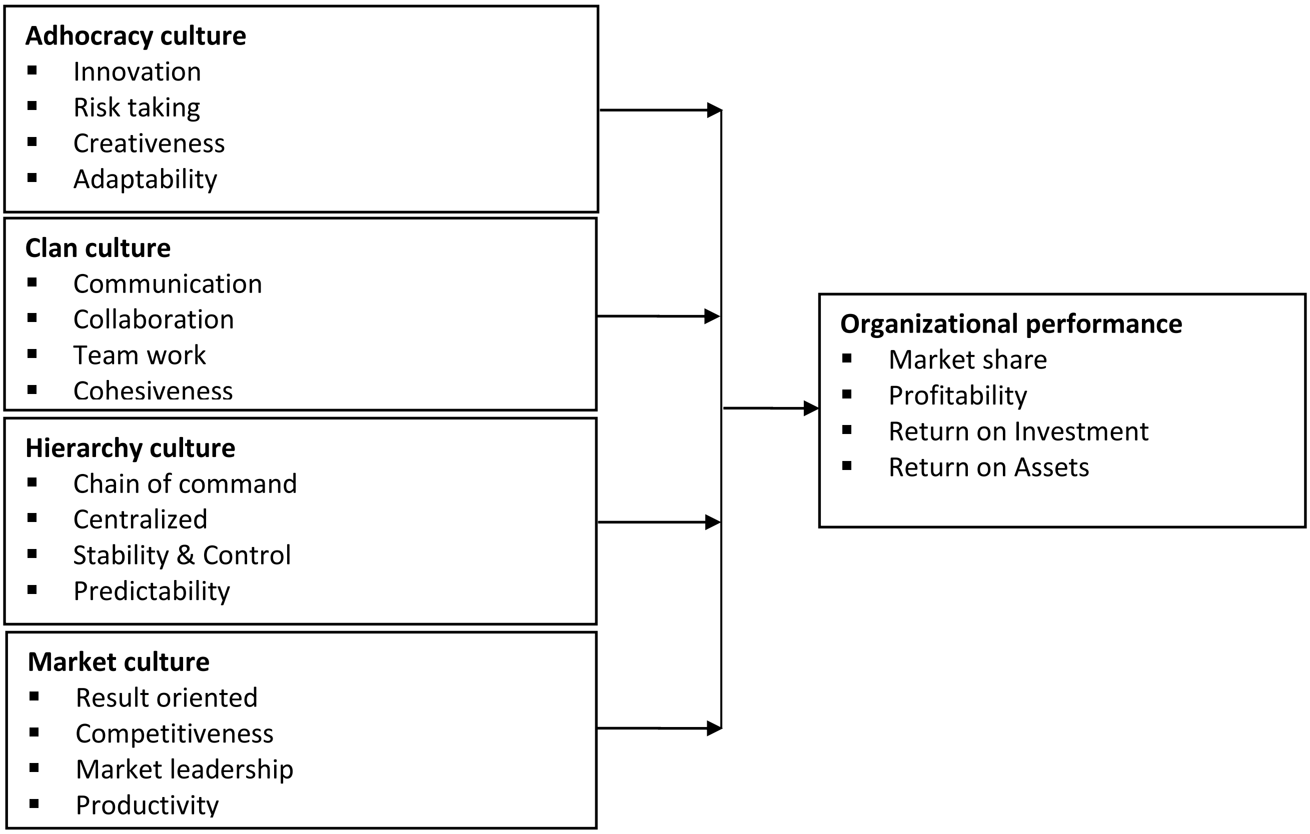
Max Weber Bureaucracy Theory

Bureaucratic organization are the ideal organization to attain maximum efficiency compared to the traditional structures. A bureaucratic organization had defined hierarchical structure, with defined chain of command and division of labor to maximize efficiency. It employed a top-down approach with centralized decision making. It emphasized on strict rules and regulations and restricted flexibility. Peek (2020) noted that many of Weber's beliefs discouraged creativity and collaboration in the workplace, and oppose flexibility and risk. This theory is important because the structure of a bureaucracy is called a hierarchy and the two terms are often used interchangeably.

Balance Scorecard theory

The Balance Scorecard (BSC) is a strategic management theory developed by Robert Kaplan and David Norton in 1992. The Balance Scorecard concept arose out of a recognized need to measure performance on more than the financial perspective. They argued that financial measures of performance were ineffective for the contemporary business environment. According to Osewe (2019), the balance scorecard overcomes the inadequacies of the traditional financial-based performance measurement tools. The Balanced Scorecard has been effectively implemented in both the non-profit and public sectors. The Balance scorecard has four measure perspectives which include financial perspective, internal processes perspective, customer satisfaction perspective and learning and growth perspective (Kaplan & Norton, 1992).

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Adhocracy culture and performance: Adhocracy culture is the skill and ability to adapt to the changing needs and conditions of the operating environment quickly. According to Ahamad et al. (2019) adhocracy culture in the context of businesses may be described as attitudes, values, skills, and power of a group or individual working in an organization that is characterized by risk. Adhocracy culture is a condition in which new ideas and creativity are expected, taking risks is encouraged, failure is tolerated, learning is encouraged, innovations about product, process and management are defended and a continuous change is accepted as the carrier of opportunities. Organizations with Adhocracy culture are highly flexible and adaptive and therefore move with speed to changes such as new business trends and technology advancements in their operating environment so as to remain competitive. Organizations operating in dynamic and turbulent environments that demands constant changes will therefore thrive in an adhocracy culture which will enhance organizational performance. Adhocracy culture also emphasizes on being innovative and encourage and reward creativity in the workplace. By being innovative, they stay upto date with the latest developments therefore gaining a competitive advantage. In order to survive the competition and always be one step ahead, all industries are required to give considerable importance to creating adhocracy culture within the firm, according to which employees must be provided with freedom and support (Kiziloglu, 2021)

Clan Culture and performance: A clan culture is a family-like or tribe-like type of corporate environment that emphasizes consensus and commonality of goals and values (Gerami, 2018). Clan culture emphasizes more on commonality and consensus of goals and values. Where there is clan culture, the working environment is very friendly and employees have much in common just like a family. Leaders of the organization at various levels are seen as father figures or mentors. On the other hand, Al-Ali, Singh, Al-Nahyan, and Sohal (2017) state that the main responsibility of clan culture is to facilitate mentorship of those under a leader's jurisdiction and show commitment to involve employees in the organization's activities. This would then promote loyalty and empower employees to increase productivity and promote business success. Clan culture is charaterized by collaboration, cohesiveness, team work and open communication.

Hierarchy Culture performance: A Hierarchy culture attributes include very formal and highly organized, standard procedures and processes, complex structures with many levels of management, clear chain of command, strong controls and predictability. Hierarchy culture is an organizational culture that focuses on the development and maintenance of stable organizational rules, structures and processes by implementing a hierarchical system of power and management. It is a formal organization structure whose members share common attitudes, values, beliefs, orientations, and sentiments which are distinguished from others (Byrkjeflot, 2018). Hierarchy culture has a complex organization structure with many levels of management that can potentially slow down communication and encourage slow decision making.

Market Culture and performance: Market culture priotizes on productivity, competitivenes, results and market leadership. Market culture has a high degree of control and is externally focused. According to Cameron and Quinn (2016), market culture is externally oriented as it focuses on its relationship between suppliers, customers and regulators. Market cultures are results oriented, with a focus on competition, achievement, and getting the job done. The management of this culture drives the organization towards maximum output and profits. In this culture, plans are not implemented if they do not directly improve productivity and profits. Order, rational production, external interaction and goal accomplishment are the most significant factors of the market culture. Members have a clear instruction and are rewarded for their performance (Rameezdeen & Gunarathna, 2016).

Organizational performance: Organizational performance relates to the results and outcomes the top management of the firm plans to achieve (Owino & Kibera, 2019). According to Mose (2017) organizational performance is the organization's ability to attain its goals by using resources in an efficient and effective manner. Organizational

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performance is classified in two dimensions that is financial and non- financial. It can therefore be measured by both financial and non- financial indicators. Kaplan and Norton (1996) developed the Balance Scorecard, a widely used strategy management tool for measuring both the financial and non- financial variables of organizational performance.

METHODOLOGY

This research study was based on the positivism paradigm. Positivism is based on the idea that measurement is obtained by objective criteria rather than subjective inferences, and that the observer must be independent of what is being observed. Positivism assumes in its understanding of the world that the environment and the events of interest are objective, external and independent of the researcher (Saunders et al., 2009). Positivism makes use of existing theories for hypotheses development which is put to the test.

This study used a descriptive research design to establish the relationship between the independent and dependent variable. Kothari (2004) describe a descriptive survey design as a design that seeks to portray accurately the characteristics of a particular individual, situation or a group.

The target population for this study comprised of 86 employees working in commercial banks in Kenya. According to CBK (2019) annual report there are 43 commercial banks registered to operate in Kenya as of 31st December 2018.

The sampling frame for this study was 86-management staff comprising of Branch and Human resource managers of the 43 registered commercial banks in Kenya. The study used purposive sampling method. The sample size was calculated by use of Slovin's formula. The sample size was calculated as follows:

$$\mathbf{n} = \frac{\mathbf{N}}{(\mathbf{1} + \mathbf{N}\varrho^{\mathbf{2}})}$$

Where; n is the sample size; N is the population size and e is the standard error

$$\mathbf{n} = \frac{\mathbf{86}}{\mathbf{1+86X(0.05)^2}} = \mathbf{70}$$

Primary data was collected by 5-point Linkert scale structured questionnaires which was distributed to the target population and collected after one week with the help of research assistants. A pilot study was conducted in order to test for validity, reliability and practicability of the research instruments and the results confirmed the tool was ready for data collection. Data was analyzed using the Statistical Package for Social Sciences (SPSS version 23.0). Descriptive and inferential statistics were generated. The Multiple regression analysis models was adopted as shown below;

$$\mathbf{Y_{ij}=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\varepsilon}$$

Y = β0 +β1X1 + ε 1

Y = β0 +β2X2+ ε 2

Y= β0 +β3X3+ ε 3

Y= β0 +β4X4+ ε 4

Where:

Y= Organizational performance

B0 =constant which is the value of criterion variable when all the predictor variables are 0

β1, β2, β3, and **β4** are the coefficient function of the independent variables,

X_1= Adhocracy culture, **X_2**= Clan culture, **X_3**= Hierarchy culture, **X_4**= Market culture

ε= Error term of the regression

FINDINGS

Descriptive Statistics

Table 1: Adhocracy culture descriptive results

Indicators of adhocracy culture in banks	Mean	SD
Employees are motivated to use their creativity and to proactively seek out new ideas	4.68	.877
The bank motivates employees to take risks in solving work related problems	4.75	.915
The bank encourages employees to devise ways to create value	4.62	.831
The bank recognizes and rewards exemplary employee innovations	4.76	.856

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The results indicate that respondents strongly agreed that adhocracy culture affects performance of commercial banks in Kenya.

Clan culture

Table 2: Clan culture descriptive results

Indicators of clan culture in banks	Mean	SD
The management style in the organization is characterized by teamwork	3.90	.876
Employees feel free and open to express their thoughts and opinions	3.00	.816
The bank leadership collaborates with employees in decision making	3.20	.919
There is high level of agreement among members in the organization	3.30	.675

The results indicate that respondents were indifferent on the effect of clan culture on performance of commercial banks in Kenya.

Hierarchy Culture

Table 3: Hierarchy culture descriptive results

Indicators of Hierarchy Culture in Banks	Mean	SD
The bank employees' roles and responsibilities are clearly defined	4.19	1.045
The company expectations and working conditions are predictable	4.57	1.118
The bank places high value in comformance to procedures and processes	4.79	1.194
The bank employs a top-down approach with centralized decision making	4.67	1.191

The results indicate that respondents strongly agreed that hierarchy culture affects performance of commercial banks in Kenya.

Market culture

Table 4: Market culture descriptive results

	Mean	SD
The bank emphasizes on getting the job done and meeting targets	4.43	1.063
The management drives the organization towards maximum output	4.65	.915
The bank has clearly defined goals and objectives it aims to achieve	4.82	.981
The bank's ultimate goal is to be a market leader in the industry	4.55	.986

The results indicate that respondents strongly agreed that market culture affects performance of commercial banks in Kenya.

Correlation Analysis

The correlation results indicated that organizational culture had a positive significant association with organizational performance of commercial banks in Kenya. Specifically, adhocracy culture (r=0.742, p=0.000), clan culture (r=0.473, p=0.000), hierarchy culture (r=0.616, p=0.002) and market culture (r=0.649, p=0.000) all had positive significant effect on performance of commercial banks in Kenya. The results of this study are supported by Misigo, Were & Odhiambo (2019), Awino (2020and Fekete & Bocskei (2011).

Table 5: Correlation Results

Variable		ADH	CLN	HIE	MKT	PERF
ADHOCRACY	Correlation	1				
	Sig. (2-tailed)					
CLAN	Correlation	.443*	1			
	Sig. (2-tailed)	.030				
HIERACHY	Correlation	.327**	.724*	1		
	Sig. (2-tailed)	.000	.018			
MARKET	Correlation	.674*	.628	.359**	1	
	Sig. (2-tailed)	.033	.052	.021		
PERFORMANCE	Correlation	.742	.473	.616	.649	1
	Sig. (2-tailed)	.000	.000	.002	.000	

**. Correlation is significant at the 0.05 level (2-tailed).*

Simple Regression Analysis

To examine the relationship between the dependent and independent variable, the study conducted a regression analysis. Study findings of the analysis of variance (ANOVA) and regression coefficient were also conducted.

Table 6: Analysis of Variance, ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.823	1	9.823	11.073	.001
Residual	54.114	61	.887		
Total	63.937	62			

Table 7: Model Summary for Adhocracy Culture and Organizational Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
.392a	.154	.150	.942

a. Predictors: (Constant), Adhocracy Culture b. Dependent Variable: Organizational Performance

Table 8: Regression Coefficients for Adhocracy Culture and Organizational Performance

	Unstandardized Coefficients		StandardizedCoefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.814	.385		4.714	.000
ADHOCRACY	.454	.136	.392	3.328	.001

a. Dependent Variable: Organizational Performance

Table 9: Model Summary of Clan Culture and Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
.473a	.224	.211	.902

a. Predictors: (Constant), Adhocracy b. Dependent Variable: Organizational Performance

Table 10: ANOVA for Clan Culture and Organizational Performance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	14.307	1	14.307	17.585	.000b
Residual	49.630	61	.814		
Total	63.937	62			

a. Predictors: (Constant), Clan Culture b. Dependent Variable: Organizational Performance

Table 11: Regression coefficient clan culture and Organizational Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.519	.378		4.014	.000
CLAN	.578	.138	.473	4.193	.000

a. Dependent Variable: Organizational Performance

Table 12: Model Summary of Hierarchy Culture and Performance

R	R Square	Adjusted R Square	Std. Error of the Estimate
.287[a]	.082	.067	.981

a. Predictors: (Constant), Hierarchy Culture b. Dependent Variable: Organizational Performance

Table 13: ANOVA for Hierarchy Culture and Organizational Performance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	5.272	1	5.272	5.482	.022[b]
Residual	58.664	61	.962		
Total	63.937	62			

a. Predictors: (Constant), Hierarchy Culture b. Dependent Variable: Organizational Performance

Table 14: Regression coefficient Hierarchy culture and Organizational Performance

	Unstandardized Coefficients		Standardized Coefficients		
Model Predictor	B	Std. Error	Beta	t	Sig.
(Constant)	2.091	.420		4.973	.000
HIERARCHY	.341	.145	.287	2.341	.022

a. Dependent Variable: Organizational Performance

Table 15: Model Summary of Market Culture and Performance

R Square	Adjusted R Square	Std. Error of the Estimate
.592	.585	.654

a. Predictors: (Constant), Market Culture b. Dependent Variable: Organizational Performance

Table 16: ANOVA for Market Culture and Organizational Performance

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	37.830	1	37.830	88.395	.000[b]
Residual	26.106	61	.428		
Total	63.937	62			

a. Predictors: (Constant), Market Culture b. Dependent Variable: Organizational Performance

Table 17: Regression coefficient Market culture and Organizational Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.681	.263		2.589	.012
MARKET	.788	.084	.769	9.402	.000

In summary, all the models were sufficient predictors of bank performance.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that;

- Adhocracy culture positively and significantly affected performance of Commercial banks in Kenya.
- Clan culture positively and significantly affected performance of Commercial banks in Kenya.
- Hierarchy culture positively and significantly affected performance of Commercial banks in Kenya.
- Market culture positively and significantly affected performance of Commercial banks in Kenya.

The study recommended that;

- Management of commercial banks in Kenya to embrace adhocracy culture so as to increase performance of commercial banks in Kenya.
- Management of commercial banks in Kenya to encourage clan culture so as to increase performance of commercial banks in Kenya.
- Management of commercial banks in Kenya to support hierarchy culture so as to increase performance of commercial banks in Kenya.
- Management of commercial banks in Kenya to embrace market culture so as to increase performance of commercial banks in Kenya.

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