

**EFFECT OF ORGANIZATION STRUCTURE ON THE
RELATIONSHIP BETWEEN STRATEGIC LEADERSHIP AND
PERFORMANCE OF INTERNATIONAL NON-GOVERNMENTAL
ORGANIZATIONS IN KENYA**

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ABSTRACT

Background of the Study: Structure is the relationship between the components of an organized whole. Organization structure is a representation of the way organizational activities are divided, organized and coordinated. Structures are created so that organizations can coordinate activities, control work process and control members performance.

Objective of the Study: The study objective was to determine the moderating influence of organization structure on the relationship between strategic leadership and organizational performance. The study was anchored on strategic leadership theory, upper echelons and industrial organization economics theory.

Research Methodology: Primary data was collected from 227 respondents using a semi structured questionnaire. Both descriptive and inferential statistics were used to analyze the collected data.

Results and Findings: The results revealed that organization structure significantly moderates the relationship between strategic leadership and performance of International Non-Governmental Organizations. Thus, the hypothesis that organization structure does not moderate the relationship between strategic leadership and performance of International Non-Governmental Organizations was rejected.

Conclusion and Recommendations: Based on the results it was recommended that managers should periodically evaluate organization structure to establish whether it is responsive to the changes in the organization and whether it serves the needs of the organization. It also recommended that reviews must ensure that structure is synchronic to leadership style and if any of the two become an impediment, then necessary action aimed at aligning leadership and structure should be considered.

Keywords: *Strategic Leadership, Organization Structure, Performance & Non-Governmental Organization*

1.0 INTRODUCTION

In the wake of myriad challenges facing International Non-Governmental Organizations, the practice of strategic leadership has generally been embraced by several organizations owing to its immense contribution to organizational performance. It is posited that strategic leaders are capable of anticipating, envisioning, maintaining and initiating changes that create a competitive advantage (Daft, 2011). Such leaders shape the formation of strategic intent, strategic mission do influence successful strategic actions. Organization structure encompasses the formal arrangement of jobs and tasks in organizations (Robbins & Coulter, 2007). Structure indicates the allocation of authority and responsibility, and how rules and regulation are executed by workers in the firm (Nahma et al., 2003). Extant studies typify organization structure as managerial function concerned with centralization, formalization, and management of complexity through division of work and reporting relationships within the hierarchy. Organizational performance is the outcome of an organization's ability in using resources in an efficient and effective manner (Daft & Marcic, 2013). Organizational performance consists of the actual output or results of an organization that are measured against its intended outputs, goals or objectives. Understanding the scope, frequency and relevance of different performance measures available to executives is essential to the process of integrating the different dimensions of organizational performance (Gomes, Jabbour, Adriana & Charbel, 2011). Theoretical frameworks that explain the relationships among strategic leadership, organization structure and performance are based on organizational development theories. In this study, strategic leadership theory and upper echelons theory have been used as underpinning relationship between strategic leadership and organizational performance. The industrial organization economics theory explains the moderating effect of organization structure on the relationship between strategic leadership and performance.

In developing countries, International Non-Governmental Organizations (INGOs) play active and complementary roles in sustainable human development (Lekorwe & Mpabanga, 2007). Okorley and Nkrumah (2012) observed that despite the role of INGOs in development, the issues of sustainability, availability of funds, and supportive leadership have remained a major challenge in developing countries. Kitonga *et al.* (2016) argue that the failure of majority of organizations is attributed to lack of leadership. Furthermore, conflicting findings have been reported in the literature (Ogot, 2014; Macharia, 2014). The conflicting empirical findings regarding the nature and strength of the relationship between strategic leadership and performance raises more questions that require further research. According to Polonsky and Grau (2011) measuring performance of INGOs concerns whether the activities of these organizations translate to improved societal impact, the obligation to ensure that donors 'money is being spent effectively, and providing enhanced donor satisfaction and confidence. Hence, the purpose of this study was to determine the influence of organization structure on the relationship between strategic leadership and organizational performance of international non-governmental organizations in Kenya.

2.0 LITERATURE REVIEW

Leadership plays a role in managing the firm's internal environment including aligning structure to strategy. According to Hitt *et al.* (2012), strategic leadership is the ability of the leader to predict and maintain flexibility and to empower organizational members to create the necessary strategic change. Deeboonmee and Ariratana (2014) view strategic leadership as the aptitude to operate successfully and deliver extraordinary performance. Yukl (2010) describe strategic leadership as the power to influence organizational effectiveness and the creation of competitive advantage by managing the internal and external environment. Extant literature documents four distinct forms of strategic leadership namely: stars, leadership networks, clans and teams. Star is linked to the assumption that the CEO is the main focus of strategic leadership. In the network form of leadership, individuals in the network play roles of a leader and followers at different times based on the situation (Hunt, 2004). Clans are associated with distributed strategic leadership at the top of the firm and decentralization down the hierarchy. Teams are epitomized by horizontally distributed strategic leadership functions across different functional or geographic units. Whereas stars and networks are the two opposite ends of the spectrum of forms of leadership, clans and teams exist at the intermediate level.

Organization structure is the formal arrangement of jobs and tasks in organizations (Robbins & Coulter, 2007). Structure indicates the allocation of authority and responsibility, and how rules and regulation are executed by workers in the firm (Nahma *et al.*, 2003). Extant studies typify organization structure as managerial function concerned with centralization, formalization, and complexity of division of work and reporting relationships within the hierarchy. Formalization refers to the degree to which organization structure reflects strict set of rules for work related procedures within the organization. In formal structure, there is explicit job description, organizational rules and clearly defined procedures covering work processes (Burns & Stalker, 1996). Formalization has significant consequences for organizational members because it specifies how, where and by whom tasks are to be performed. According to Hall (1997), centralization refers to the extent to which decision making and evaluation of activities is done from a single location. Centralization is suitable for coordination of decision making and instilling cognitive capacity in an organization (Mintzberg, 1997). Organizational complexity depicts how multiple entities of an organization differentiate among themselves. It refers to the number of employees that are involved in a division, project or team. A complex structure exhibits large size of workforce with multiple reporting systems.

Organizational performance consists of the actual output or results of an organization that are measured against its intended outputs, goals or objectives. David (2009) suggests that measuring organizational performance involves a comparison of expected results to actual results, investigating deviations from plans, evaluating individual performance and examining progress made towards meeting the objectives that have been stated by the organization. According to Miles and Snow (1986), firms which are able to achieve a fit between their strategy and structure can create a significant competitive advantage, while those that do not have a fit are vulnerable to external changes and internal inefficiencies. Ansoff and McDonald (1990) state that structure and systems are complementary and work together for organizational performance. With regard to organization structure, Chandler (1962), showed how changes in strategy namely product-market

diversification, required subsequent alteration in structure. According to Donaldson (2001), strategic leadership and matrix structures offer huge competitive advantage and thus better performance, precisely because they are hard to imitate. According to Mabey *et al.* (2001), a strategically led organization can achieve optimal performance when its structure matches its strategy. A study by Pertusa-Ortega *et al.* (2010) established that the effect of strategy on performance is channeled through organization structure. It should be noted that strategy implies leadership since top management are charged with the responsibility of designing corporate strategy and overseeing implementation of strategy for improved performance. Organization structure is unique to specific firms. Therefore, structure constitutes a unique resource that contributes to the nature and strength of the relationship between strategic leadership and performance by competitive strategies deliver superior performance (Newbert, 2008).

3.0 METHODOLOGY

The study used stratified random sampling design. According to Mugenda and Mugenda (2003), stratified random sampling design aims at achieving unbiased representation of the population. In stratified random sampling, the population was categorized based on their thematic area of intervention. Target population was made up of 900 respondents. Simple random sampling was used to choose the respondents from the sampled organizations. The study adopted the Slovin formula (Slovin, 1960) to determine the sample size. This is a random sampling technique formula used to estimate sample size. The Slovin's formula was used to calculate the sample size (n) given the population (N) and the margin of error (e).

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

Where:

N= Target Population

n=required size

e= error term

$$\text{The sample size; } n = \frac{900}{(1 + 900 \cdot 0.05^2)} = 277$$

The study used primary data. Primary data was collected through semi-structured questionnaires. Statements in the questionnaire were constructed using Likert scale of 1 to 5. The targeted informants for the study were the INGOs country directors, or their equivalent such as Chief of Party, program directors, and operations directors. Reliability of the questionnaire was tested using Cronbach alpha > 0.7. Demographic characteristics were analyzed using descriptive statistics such as frequencies and percentages. Stepwise regression method was used to test the moderating effect of organization structure on the relationship between strategic leadership and performance of international non-governmental organizations in Kenya. Goodness of fit was tested using coefficient of determination (R^2). Overall significance of the model was based on ANOVA/F test. Individual significance was tested using t test. The results were interpreted using coefficients and P-values. The findings were presented in tables.

4.0 DATA ANALYSIS AND RESULTS

Measurement Model

Factor analysis was carried out to confirm the measures of the study variables. This was done using sampling adequacy test. The results are presented in Table 1.

Table 1: KMO and Bartlett's Test

		Strategic Leadership	Organization Structure	Performance
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.859	0.771	0.828
Bartlett's Test of Sphericity	Approx. Chi-Square	1240.276	1105.583	1399.045
	df	171	171	171
	Sig.	0	0	0

As shown in Table 1, sampling adequacy for strategic leadership (KMO = 0.859, P-Value = 0.00<0.05), organization structure (KMO = 0.771, P-Value = 0.00<0.05) and performance (KMO = 0.828, P-Value = 0.00<0.05) were significant, hence the statements forming the study variables were correlated. This means that statements in each study variable were correlated and would be reduced into factors.

Table 2: Descriptive Statistics

Response Rate			
	Frequency	Percent	
Returned usable questionnaires	190	68.59	
Returned non usable questionnaires	1	0.36	
Non returned questionnaires	86	31.05	
Total	277	100.00	
Reliability			
Variable	No. of Items	Cronbach's Alpha	Decision
Strategic Leadership	19	0.893	Reliable
Organization Structure	19	0.800	Reliable
Performance	23	0.882	Reliable
Respondents' Characteristics			
	Frequency	Percentage	
Designation			
Country director	23	12.1	
Program/operations director	91	47.9	
Technical lead	63	33.2	
Total	177	93.2	
Years in Current Position			
Less than 1 yr.	9	4.7	
1 - 3 yrs.	57	30	
4 - 5 yrs.	82	43.2	
More than 5 yrs.	42	22.1	
Total	190	100	
Previous Position			
Different role in current organization	152	80	
Similar role in different organization	2	1.1	
Different role in different organization	29	15.3	
Total	183	96.3	

The study achieved response rate of 68.59 percent which was considered adequate for further analysis. The questionnaire was reliable, that is, each variable had Cronbach alpha greater than 0.7. The respondents were obtained from all the three designations (county director, program/operations director and technical leads) in the organizations. Specifically, majority were program/operations directors, followed by technical lead and county director respectively. In terms

of years in the current position, most of the respondents had stayed in their current positions for a period of 4-5 years. There was high job rotation and low turnover as majority of the respondents had been in different roles in the current organization. Respondents were least interested in holding similar role in different organizations and would only move to another organization on a different role.

Hypothesis Testing

Objective: *To determine the moderating influence of organization structure on the relationship between strategic leadership and organizational performance*

Hypothesis: *Organization structure does not moderate the relationship between strategic leadership and performance of international non-governmental organizations in Kenya*

The objective of this study was to determine the moderating effect of organization structure on the relationship between strategic leadership and performance of international non-governmental organizations in Kenya. The analytical models used to perform hypothesis test were:

$$P = \beta_0 + \beta_1SL + \varepsilon$$

$$P = \beta_0 + \beta_1SL + \beta_2OS + \varepsilon$$

$$P = \beta_0 + \beta_1SL + \beta_2OS + \beta_3SL*OS + \varepsilon$$

Where;

P = Performance

β_0 = Intercept

β_1 = Coefficient of Strategic Leadership

β_2 = Coefficient of Organization Structure

β_3 = Coefficient of Interaction between Strategic Leadership and Organizational Structure

SL = Strategic Leadership

OS = Organization Structure

SL*OS = Interaction term

ε = Error Term

The composite index was computed for strategic leadership, organization structure and performance

Table 3: Regression Results for Moderation Effect of Organization Structure on the Relationship between Strategic Leadership and Performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics R Square Change	F Change
1	.690 ^a	0.476	0.473	1.17099	0.476	145.507
2	.732 ^b	0.535	0.529	1.10653	0.059	20.182
3	.742 ^c	0.550	0.542	1.09181	0.015	5.318

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	199.522	1	199.522	145.507	.000 ^b
	Residual	219.394	160	1.371		
	Total	418.916	161			
2	Regression	224.234	2	112.117	91.567	.000 ^c
	Residual	194.683	159	1.224		
	Total	418.916	161			
3	Regression	230.573	3	76.858	64.476	.000 ^d
	Residual	188.343	158	1.192		
	Total	418.916	161			

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.21	1.014		6.122	0.000
	Strategic leadership	0.67	0.056	0.69	12.063	0.000
2	(Constant)	3.306	1.156		2.86	0.005
	Strategic leadership	0.5	0.065	0.515	7.735	0.000
	Organizational structure	0.331	0.074	0.299	4.492	0.000
3	(Constant)	14.606	5.031		2.903	0.004
	Strategic leadership	-0.153	0.29	-0.158	-0.528	0.598
	Organizational structure	-0.278	0.274	-0.252	-1.016	0.311
	Interaction SL*OS	0.035	0.015	1.098	2.306	0.022

The analysis involved three steps (stepwise regression for testing moderation). In the first step strategic leadership accounted for 47.6 ($R^2 = 0.476$) percent of the variation in performance. The model was overall significant ($F = 145.507$, $P\text{-Value} = 0.00 < 0.05$). Strategic leadership had a significant positive ($\beta = 0.69$, $t = 12.063$, $p\text{-value} = 0.000 < 0.05$) influence on performance. Condition for step one was met, thus, the analysis move to step two. In step two, organization structure was introduced in the model. R^2 improved from 0.476 to 0.535 (R square change = 0.059). 53.5 percent of the variation in performance was explained by the change in strategic leadership and organization structure. The model was significant in overall ($F = 91.567$, $P\text{-Value} = 0.00 < 0.05$). Strategic leadership coefficient ($\beta = 0.515$, $t = 7.735$, $p\text{-value} = 0.000 < 0.05$) and organization structure coefficient ($\beta = 0.229$, $t = 4.492$, $p\text{-value} = 0.000 < 0.05$) were individually significant. Conditions for step two were satisfied, thus the analysis proceeded to step three. In step three the interaction term was introduced. R^2 improved from 0.535 to 0.550 (R square change = 0.015). This indicated that 55 percent of the variation in performance was explained by the change in strategic leadership, organization structure and interaction term. The model was significant in overall ($F = 64.467$, $P\text{-Value} = 0.00 < 0.05$). Coefficient for interaction term ($\beta = 1.098$, $t = 2.306$, $p\text{-value} = 0.022 < 0.05$) was significant. Thus, moderation took place. The hypothesis that organization structure does not moderate the relationship between strategic leadership and performance of international non-governmental organizations in Kenya was not supported. This means that organization structure moderates the relationship between strategic leadership and performance of international non-governmental organizations in Kenya. The predictive model was as follows;

$$P = 14.606 - 0.158SL - 0.252OS + 1.098 SL*OS$$

5.0 CONCLUSION

The objective of the study was to determine the moderating influence of organization structure on the relationship between strategic leadership and organizational performance. To test this objective hypothesis was formulated which stated that ‘organization structure does not moderate the relationship between strategic leadership and performance of international non-governmental organizations in Kenya’. Moderation takes effect if the interaction term between the independent variable and moderating variable in the model is significant, that is, $P\text{-Value} < 0.05$. The results indicated that organization structure moderates the relationship between strategic leadership and performance of international non-governmental organizations in Kenya, thus, the hypothesis was not supported. These findings concur Newbert (2008) who established that organization structure was a higher order capability that moderates the influence between strategic decisions and organizational performance.

The results revealed that organization structure significantly moderates the relationship between strategic leadership and organizational performance. The results support those of Pertusa-Ortega et al. (2010) who established that the effect of strategy on performance is channeled through organization structure. Further structure constitutes a unique resource that contributes to performance by influencing the development of competitive strategies that deliver superior performance (Newbert, 2008). Unlike Pertusa-Ortega *et al.* (2010) who conceptualized

organization structure as a mediator between strategy and performance, the current study demonstrates organization structure moderates the relationship between strategic leadership and organizational performance. Although leaders create organization structure, once established, structure may run parallel to some leadership style, that is, transformational leadership is hindered by bureaucratic structure (Wright & Pandey, 2010). On the contrary, flexible structure paves the way for transformational leadership and provides pathway to improved organizational performance. Although Awino (2015) established that organization structure has direct influence on performance, his findings cannot be interpreted without looking at the broader organization's internal conditions. Structure without effective leadership is barren. Moreover, strategic leadership ensures that organization structure is aligned to strategy for superior performance outcome.

6.0 RECOMMENDATIONS

The study revealed a significant moderation effect of organization structure on the relationship between strategic leadership and performance. On this basis the study recommends that managers should periodically evaluate organization structure to establish whether it is responsive to the changes in the environment and whether it serves the needs of the organization. Where, it is established that organization structure is not serving the interests of the organization, deliberate steps must be taken by management to review structure and align it with strategy. Furthermore, the review must ensure that structure is synchronic to leadership style and if any of the two become an impediment, then necessary action aimed at aligning leadership and structure should be considered.

7.0 LIMITATION OF THE STUDY

The study was limited to International Non-governmental organizations. As a result, the views of local NGOs are not captured in the study. International Non-governmental organizations tend to work with expatriates at strategic position, meaning that the findings may not be fair representation of how leadership influences performance across not-for profit organizations. Thirdly, data used in the analysis was collected using structured questionnaires that do not allow respondents to explain their views in context. Hence, the study is methodologically limited both in measurement and depth of investigation. Fourth strategic leadership is at top management level thus, questionnaires were to be administered at the higher level of the organization. Given the difficulty to approach high level managers in every organization due to their limited time and restricted work schedule it took longer time to get the response.

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