The Moderating Role of Employee Characteristics on the Relationship between Employee Trust of Top Management and Performance of Savings and Credit Cooperative Societies (SACCOS) in Nairobi City County Kenya

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ABSTRACT
The objective of this study was to establish whether employee characteristics significantly moderate the relationship between employee trust of top management and performance of SACCOS in Nairobi City County. The study population consisted of all 1065 SACCOS in Nairobi City County as at 31st December 2014. A cross sectional survey research design was used to achieve the objective. Primary data was collected using two questionnaires, one for CEOs of the SACCOS and the other for the employees. The data analysis methods used were descriptive statistics, simple and hierarchical regression analysis. The results of the study were that employee characteristics significantly moderated the relationship between employee trust of top management and performance of SACCOS in Nairobi City County. This led to the conclusion that for employee characteristics to have a strong influence on SACCO’s performance employee must have trust in top management. The findings support the contingency theories that emphasize that the success of any managerial decision depends on prevailing situations. That is to say the effect of employee trust of top management on SACCO performance is moderated by employee characteristics. One limitation of the study was the low response rate of 30%. This needs to be improved in future research. It is recommended that more studies be undertaken to establish the moderating role employee characteristics can have on the relationship between trust and performance in many sectors and industries.

Key Words: Employee Trust, Employee Characteristics, organizational performance, top management
Introduction

Many studies have found a significant and positive relationship between employee trust and organizational performance (Hassan, Toylan, Semerciöz & Aksel, 2012). Research has further shown that where employees trust their managers their organizations perform better than where employees do not trust their managers. Trustworthy managers are able to maintain and even increase organizational outcomes in organizations challenged by low levels of performance and facing environmental complexity (Boyne 2003).

Top managers are able to earn trust from their employees because the make strategic decisions that affect the overall culture and success of the organization. They are also responsible for decisions about what to communicate to the employees concerning the company’s financial position, impeding strategic decisions and moves and policy changes about such things as monetary raises, changes in benefit packages and personnel policies. Because of this any lack of trust in top management would likely leave employees spending time and mental energy speculating about their future in the company or the future of the company itself (Mayer & Gavin, 2005). It is therefore critical for managers to earn trust of their employees if the company is to achieve its goals effectively and efficiently.

Although literature has shown that employee trust has positive consequences on organisational performance, very few studies, if any, have established the moderating or the mediating variables that can influence the relationship between employee trust and organizational performance (Fiala, Prokop & Zivelova 2012; Semercioz, Hassan & Alkemur 2011). This study seeks fill this gap in knowledge by trying to establish whether or not employee characteristics significantly moderate the relationship between employee trust and performance of SACCOs in Nairobi City County.

This study is anchored on three theories namely: the Social Exchange Theory (SET) the Agency Theory (AT), and the Theory of Trust (TT)) The SET proposes that all human relationships are based on rationality. People associate with others so as to maximize their benefits from the association. Agency theory looks at the governance of the firm. It proposes that the principal delegates control of the firm to rational actors who by undertaking the management role will seek to maximize their individual self interest. The principal enters into an agreement with the agent that the agent will manage the principal’s firm on his/her behalf. Agency theory assumes that both the agent and principal are motivated by their own self interest (Shapiro, 2005). Agency theory focuses on ways of controlling the self-serving behaviour of agents to ensure that the interests of the principals are protected (Philips & Bosse, 2013). In the case of employee trust in their managers the employee acts as the agent while the manager is the principal. When the manager behaves in a trustworthy manner the employee can take care of the principal’s interest by acting in the best interests of the firm.

The Theory of trust (TT) emphasizes that interpersonal trust can lead to competitive advantage. Firms in which employees trust each other can garner a competitive advantage over those whose employees do not trust one another (Fukuyama, 1995). Therefore when managers are trustworthy, employees reciprocate by working in the interest of the firm.

Literature Review

Employee Trust

An analysis of literature on trust finds many definitions of the concept of trust. Some authors like Rousseau, Sifken, Burt ,and Camerer. (1998) defined trust as the positive attitude towards others. People will trust others to reciprocate their behaviour. When they behave with integrity, are benevolent and credible others will reciprocate (Bories 2007) Other studies indicate that trust involves risk that others will reciprocate or at least behave as expected (Barzoki, Abzari, Masrach &Maleki 2013; Bigley, McAllister & Tan 2009;
Semercioz et al., 2011). For Nooteboom, Berger and Noorderhuem (1997) trust refers to the hope that the other party will behave in the interests of the trustor.

Literature has differentiated two types of trust. McAllister (1995) for example distinguished between emotional trust and cognitive trust. Cognitive trust refers to trust which is based on a rational evaluation of the reasons that justify the choice of relying on a person such as integrity, and credibility. Affective trust on the other hand is one based on emotional links and attachments to the other party. Other forms of trust distinguished are lateral trust and vertical trust. Lateral trust is based on the relationship between co-workers (Barzoki, Abzari, Mazrach, & Maleki 2013). Vertical trust on the other hand is founded on the relationship between subordinates and superiors. Costigan, Ilter and Berman (2010) distinguish between employee trust in their immediate supervisors and in their trust in top management. Employee trust in their immediate supervisor is based on the direct relationship between the employee and his supervisor while trust in top management is based on the reputation of the organization’s top leadership (Costigan et al., 2010).

Employee trust refers to employees having confidence in the managers’ ability, integrity and benevolence (Lyman, 2012). According to Lyman (2012) when employees trust their managers it is the responsibility of the managers to respond by behaving in the right way. Trust is earned through both action and interaction. For people to trust others, those others must do something to give them the evidence they need so as to trust them. If the employees are to trust their managers, the managers must do things that make the employees trust them. Trust is also founded on interaction between people. It can be due to a simple communication between a manager and an employee working together in a project. Mayer, Davis, and Schoorman (2006) provided a model proposing that when followers believe that their leaders have integrity, ability or benevolence they will be more likely to trust them (their managers).

There are many things managers can do to earn employees trust (Lyman, 2012). Firstly, managers should be credible (trustworthy), that is to say they must do what they say they will do. Secondly, managers must respect their employees. This is experienced through managers’ being honest when dealing with their employees. Finally, managers should treat all their employees with fairness regardless of their position within the organization (Lyman, 2012). Consequently it is the manager’s trustworthiness, honesty and fairness that earn his/her employees’ trust. This research focuses on the employee trust of top management in terms of honesty, fairness and trustworthiness.

**Employee Characteristics**

In addition to employees demographic characteristics (age, gender, academic qualifications, experience on the job and in the organization) there are employee behavioural characteristics that can influence his performance in the organization and hence influence organization performance. These include self-management, technical competence, dependability, concentration and innovativeness (Johari & Yahya, 2009).

In this study the employee characteristics considered as important variables that either affect the organizational performance or influence the trust performance relationship are managerial competency, use of ICT, self management, dependability, concentration and initiative.

**Organizational Performance**

Organizational performance is a measure of how an organization achieves its goals and objectives (Berraies, Chaher, & Yahia, 2014). Organizational performance can be operationalised in terms of either financial or non-financial indicators. Financial variables include profit or turnover while non financial variables could be market share, customer satisfaction or quality of goods and services (Deshpande, Jarley, &
Webster, 1993, and Drew, 1997) Organizational performance can also be defined as the extent to which the it achieves goals and objectives. Richard, Divinely, Yip and Johnson, 2009 states that performance can be considered from two perspectives. These are financial performance and non financial measures. In this study, SACCOs performance is operationalised by rate of return on investment to represent financial performance and quality of services, number of innovations, number of CSR projects implemented and efficiency and effectiveness to represent non financial performance.

**SACCOs in Nairobi County**

The Savings and Credit Cooperative Societies (SACCOs) in Kenya face various challenges such as competition, limited resources, limited managerial skills and rapidly changing external environments. To help the SACCO sector achieve its intended goals, the SACCOs must seek appropriate strategies to deal with the challenges. Increasing employee trust of top management in the SACCOs can be one strategy the SACCOs may have in achieving increased efficiency and effectiveness. SACCOs play a significant role of transforming livelihoods for millions of people not only in Kenya but through the world. By contributing to knowledge on how SACCOs can increase their competitive advantage through the promotion of employee trust the study helps in the transformation of society.

Nairobi City County had a total of 1,065 SACCOs as 31<sup>st</sup> December 2014. Of these, 58 (5.4%) were formed by members of Central Government, 20 (1.9%) were formed by employees of the Teachers Service Commission, 99 (9.3%) were formed employees of community organizations and the rest 888 (83.4%) were formed by employees of private companies in Nairobi. This study achieves this by seeking an answer to the following question: Do employee characteristic have a significant moderating effect on the relationship between employee trust of top management and performance of SACCOs in Nairobi City County?

**Research Problem**

Empirical literature has identified many gaps in the research on trust and performance including conceptual, methodological and contextual gaps. Dirks and Ferrin, 2001 identified gaps in construct focus. While examining relationship between trust and performance researchers have emphasized more on the positive impact of employee trust on their direct leader and organizational performance. They have also not looked at variables that can moderate the relationship. (Dirks & Ferrin, 2001).

There are also differences on the dependent variable. While some studies looked at financial performance (Tsafrir, 2005) others looked at both financial and non-financial measures of organizational performance. For example, Semercioz, et al., (2011) considered performance in terms of both product and process innovation. Since SACCOs are both economic and social organizations it will be important to find out whether trust contributes positively to the achievement of both social goals and financial goals. There are also methodological gaps in that some studies looked at a single organization (Krot & Lewicka, 2012) while others (Tsafrir, 2005) conducted surveys of several organisations. This study studied several organizations in the same sector.

Employee trust in management operationalised in terms of ability, benevolence and integrity has been fond to affect such employee outcomes as risk taking and job performance (Colquilt, Scott, & Lepine, 2007). The study by Tsafrir (2005) indicates that the relationship between trust and performance is mediated by HR practices.

This study attempts to address some of the above gaps by looking at the relationship between employee trust of top management and performance and also tries to establish whether employee characteristics moderate the relationship. In addition this study looks at several organizations in the same industry and in a
developing country. To fill the above gaps this study seeks to answer the following question: Do employee characteristics significantly moderate the relationship between employee trust of top management and the performance of SACCOs in Nairobi City County?

**Conceptual Framework**
The conceptual model in Figure 1 below presents a schematic diagram of the researcher’s perception of the relationship among the various variables of the study. The schematic diagram captures the linkages identified in literature. The model shows that employee characteristics moderates the relationship between employee trust of top management and performance.

**Figure 1 Conceptual Model showing that employee characteristics moderates the relationship between employee trust and performance**

As shown in Figure 1 above employee trust influences organizational performance but the relationship is moderated by employee characteristics. This study sought to establish whther employee characteristics significantly moderates the relationship between employee trust and performance of SACCOs in Nairobi City County.
The following hypothesis were derived from the conceptual model above:

H1 Employee trust of top management significantly affects the relationship between employee trust and financial performance of SACCOs in Nairobi City County

H2 Employee trust of top management significantly affects the relationship between employee trust and non-financial performance of SACCOs in Nairobi City County

H3 Employee characteristics significantly moderate the relationship between employee trust of top management and the financial performance of SACCOs in Nairobi City County

H4 Employee characteristics significantly moderate the relationship between employee trust of top management and the non-financial performance of SACCOs in Nairobi City County

**Research Methodology**

This study was founded on the positivist philosophy paradigm because it follows the process of hypotheses testing with the intention of either rejecting or accepting the null hypotheses. It also sought to objectively establish facts by empirically establishing relationships among variables. Further, the researcher was independent, did not introduce personal feelings and the study used factual data. Descriptive cross-sectional survey research design was used in this study.

The target population of this study was the 1065 SACCOs in Nairobi City County as at 31 December 2014. In this study, the sample size of the SACCOs was selected using a formula developed by Krejcie and Morgan (1970). This formula is as follows:

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S = \frac{X^2 NP(1-P)}{d^2(N-1) + X^2 P(1-P)}
\]

Where:
- \(S\) = the required sample size
- \(N\) = the population size
- \(X^2\) = the table value of the chi-square for 1 degree of freedom at the desired confidence level
- \(P\) = the population proportion (assumed to be .50 since this would provide the maximum sample size)
- \(d\) = the degree of accuracy expressed as a proportion (0.05)

Using this sampling method, a sample size of 281 of SACCOs was calculated and selected using convenience sampling:

For each of the 281 SACCOs, one copy of the CEO’s questionnaire and three copies of the employee questionnaire were given to the receptionist for collection later.

The methods used to analyse the data were descriptive statistics, simple and hierarchical regression analyses. Descriptive statistics were used to describe the study variables particularly the sample profiles. Simple regression analysis was used to test the relationship between employee trust of top management and performance. Hierarchical regression analysis was used to test the significance of the moderating effect of employee characteristics on the relationship between employee trust of top management and performance...

**Results**

Out of the 281 questionnaires administered to the CEOs, 84 were collected and found to be fully and properly filled. Out of the 843 questionnaires administered to the employees, 255 were returned, fully and correctly filled, resulting in a response rate of 29.9% and 30.3% respectively for the CEOs and employees.

The demographic profile of the SACCOs in Nairobi City County was as follows. 45% of the SACCOs employees were less than 10 years old, 25% were from 10 years to 15 years, while 30% were over 15 years old. With regard to size, 49% of the SACCOs had a labour force of less than 20 employees. Only 6% had a...
labour force of 60 employees and above. With regard to the sector most of the SACCOs (43%) were formed by members of private businesses, 23% were community based, whereas those formed by employees of central government were 15% of the sample selected. The objective of the study was to establish the significance of the moderating effect of employee characteristics on the relationship between employee trust of top management and the performance of SACCOs in Nairobi City County. Employee trust was operationalised in terms of integrity, honesty fairness and benevolence. Financial performance was operationalised in terms of the average annual growth rate of return on investment. Non-financial performance was operationalized in terms of quality of services, number of innovations, number of corporate social responsibility (CSR) projects implemented, efficiency and effectiveness. Employee characteristics were operationalized in terms of dependability, self-management, concentration, competence and initiative. Questions were put on a five-point likert type scale ranging from 1 – Strongly agree to 5 – strongly disagree were set to measure the five employee characteristics.

To determine the relationship between employee trust of top management and return on investment the following hypothesis was tested:

**H1 Employee trust of top management has a significant effect on the return on investment of SACCOs in Nairobi City County**

The results of the regression analysis had a correlation coefficient of \( R = 0.177 \) \( p < .05 \) denoting a weak but positive linear relationship between the employee trust and performance.

To assess the relationship between employee trust of top management and non-financial performance the following hypothesis was tested

**H2 Employee trust of top management has a significant effect on the non-financial performance of SACCOs in Nairobi City County.**

The results of the regression analysis showed a correlation coefficient of \( R = 0.016 \) \( p < 0.05 \) denoting a weak but positive linear and significant relationship between the employee trust and non-financial performance.

To test the moderation effect path analysis proposed by Baron and Kenny (1986) was used. The first step involved testing the influence of the predictor variable (employee trust) on the dependent variable (return on investment). The second step involved regressing the dependent variable (employee characteristics) with the moderator variable (return on investment). The third step involved creating an interaction which is a product of the predictor variable and the moderator variable. This interaction term is regressed against the dependent variable. Moderation occurs if the relationship between the interaction term and the dependent variable is significant.

To test the moderating effect of employee characteristics on the relationship between employee trust of top management and financial performance of SACCOs in Nairobi City County the following hypothesis was tested

**H3 The relationship between employee trust of top management and non-financial performance is significantly moderated by employee characteristics.**

The regression results when the interaction term was added into the model are as follows: \( R = .389 \) \( R^2 = .151 \) \( p > .05 \). An R of .389 indicates a positive moderating effect of employee characteristics on the relationship between employee trust and financial performance.
To find out the significance of the moderating effect of employee characteristics on the relationship between employee trust and non financial performance Hypothesis 3 was formulated as follows:

**H3**  The relationship between employee trust of top management and non-financial performance is significantly moderated by employee characteristics.

The results in model summary section when the interaction term was added are as follows: \( R = .634 \) \( R^2 = .402 \) R Square Change =.022 \( p < .05 \). These results show that employee characteristics significantly moderate the relationship between employee trust of top management and non financial performance of SACCOs in Nairobi City County.

**Discussion**

The research findings showed that employee characteristics significantly moderates the relationship between employee trust of top management and both financial and non financial performance of SACCOs in Nairobi City County. The results show that employee characteristics can enhance the effect of employee trust of top management on performance. This means that when employees with certain characteristics are hired there is a likelihood that employee trust of top management can lead to improved organizational performance.

Many studies have identified many individual characteristics that influence organizational performance (Johari & Yahya, 2009; Magachi & Changi, 2009; Sakude, 2011). Those individual characteristics include age, gender, and level of education. Many studies have also established the existence of a relationship between individual characteristics and organizational performance. For example Inyang (2008) found that female principals are caring, compassionate and concerned about the welfare of both staff and students and thus perform highly in educational management. Gede (2001) found that age of employees influences their performance. Hullin and Smith (1965) and Saleh and Otis (1964) also came to the same conclusion. With regard to educational qualifications, Rugei and Agih (2008) found out that organizational performance was significantly influenced by educational qualification. Job experience was also found to have a significant influence on the performance of employees.

As seen above, research has generally established a positive relationship between individual characteristics and organizational performance. What those studies have not shown is the moderating effect of the employee characteristics on the relationship between employee trust of top management and performance. This study has filled this gap in knowledge by showing that employee characteristics moderate the relationship between employee trust of top management and both financial and non financial performance. The study has shown that the effect of employee trust of top management on performance can be enhanced by hiring employees with appropriate characteristics. This study has identified some of the characteristics such as dependability, self management, technical competence, concentration and initiative. The findings of study adds to existing knowledge on the moderating effect of employee characteristics on the relationship between employee trust of top management and both financial and non-financial performance.

**Recommendations**

Many recommendations can be made out of the findings of this study. One of them is that since employee trust of top management significantly influences organizational performance managers can improve performance by engaging in trustworthy behaviour and also being fair, benevolent, honest and having integrity. The study also recommends that since employee characteristics significantly moderated the relationship between employee trust of top management and organizational performance, organizations can improve performance if they recruit employees with relevant characteristics such as dependability, self management, concentration, competence and initiative.
The study contribution to the open systems theory which emphasizes that organizations face several contextual factors that influence organizations and relations of organizational variables. The study also contributes to the social exchange theory that proposes that the existence of interpersonal relations is based on rational choices among the relationship partners. When relationship partners see no benefit in their interpersonal relationships then there is no need for strengthening the relationship. That is to say as employees relate with their top management their trust is a function not only of the benefits they see as arising from such relationship but also a function of the their characteristics.

The research findings have significant policy implications. As managers formulate human resource management policies they should take into consideration not only the possible influence of employee trust of top management on the performance of organizations but should also consider the moderating effect employee characteristics have on the relationship between employee trust of top management and performance.

Another implication of the research finding is that Human Relations Managers should concentrate more energy in promoting trust relationships between employee and top management. In today’s fast changing and flexible business environment, leaders can no longer rely on positional authority alone to get things done (Stuckey, 2015). As organizations have become flatter, decentralized, and geographically dispersed, with more employees working through the internet, it is harder for a leader to even know what their employees are doing much less to monitor work as rigorously as in the past. As such trust is tremendously important in today’s workplace as it contributes to better engage staff for increased productivity.

Understanding what makes a trustworthy leader is invaluable to HR professionals as it enables them to develop strong talent management and retention strategies. This study provides evidence that employee trust of top management significantly contributes to organizational performance. The study further empirically shows the how employee characteristics can play in enhancing organizational performance.

Limitations of the study
This study has a few shortcomings. One of them is the fact that it only covered SACCOs in Nairobi City County. The study’s findings could be improved if studies were undertaken for all the SACCOs in Kenya. Such a study will improve the generalizability of study findings.

Another shortcoming was that the study research design was a cross-sectional survey. In this type of survey data was collected at a single point in time. The shortcoming of such a study is that it does not detect causal effects of variables. A longitudinal study would provide a better assessment of the relationships between the study variables. Another limitation of the study was the low response rate achieved. Given more time and resources the response rate could be improved and therefore the conclusions of the study findings be more credible. This study recommends that future studies on the moderating role of variables on the relationship between employee trust and performance should consider not just employee characteristics but other variables such as managerial attributes.

REFERENCES


