

The Influence of Size on Organizational Climate and Corporate Performance in the Nigerian Oil Industry.

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Abstract: *The study examined the relationship between size and influence of organizational climate on corporate performance in the Nigerian oil industry. The sample for the study consisted of three hundred and eighty two (382) employees from seven randomly selected major oil companies in Nigeria. The study utilized both quantitative data (questionnaire) and qualitative data (interview). The spearman rank correlation coefficient and Multiple Regression Model using the Statistical Package for Social Sciences (SPSS) version 17 were utilized for the analysis of data. Our finding revealed a positive and significant relationship between size and the influence of organizational climate on corporate performance. Based on this finding, it was concluded that the prevailing size of the organizations had a significant positive effect on the organizational climate and corporate performance. The managerial implications of these findings were also discussed.*

Key words: *Organizational size, Organizational climate, Corporate Performance.*

I. Introduction

Structure is important in defining individual responsibilities within the workflow process; a congruent size ensures that individuals carry out these responsibilities with minimum resistance. Skyrocketing health care cost, increasing workforce diversity, and an economic recession, for example, have forced organizations to “right size” (Cummings and Worley, 1993). Organizations experience poor corporate productivity, grapple with low profitability; they struggle to maintain their market share, and suffer difficulties in expanding their market share. They strive for effectiveness and efficiency, the all time basics of all business problems.

Several researches on how to improve corporate performance have taken place in the past two decades. The difference in performance is often related to the strategy adopted by an organization to achieve its objectives. It has also been argued that strategic group membership and associated collective behaviours are the primary sources of durable differences in organizational profitability and effectiveness (Caves and Porter, 1977; Porter, 1979).

Over the past decade, a great deal has been written about size and the role it plays influencing the relationship between organizational climate and successful performance of organizations (Dess & Robinson, 1984; Venkatraman & Ramanujan, 1986; Hansen and Wernerfelt, 1989; Moran and Volkwein, 1992; Diekhoff, Thompson and Denney, 2006; Liao and Rice, 2010)). Despite this growth of scholarly publications on the influence of size on Organizational climate and corporate performance, little empirical evidence exists in developing countries, especially Nigeria. To bridge this gap in literature, this study examines the relationship between size and Organizational climate and corporate performance. By exploring the effect of size on organizational climate and corporate performance, organizations can enhance their competitive advantage and effectiveness.

II. Literature Review

Size is the organization’s magnitude as reflected in the number of people in the organization. Organization size has often been described as an important variable that influences structural design. Organizations have growth as one of their goals. Daft (2000) offered three reasons for the desire for growth. These include organization goals, executive advancement and economic health. Organizations merge to gain stronger market presence. There are many challenges and opportunities for advancement when the number of employees is expanding (Child, 1977). Greater size gives marketing-intensive companies like banks, power in the market place and increased revenues (Treece, 1993).

Huge resources and economics of scale are needed for many organizations to compete globally. This is responsible for the mergers and acquisitions going on in the Nigerian banking sector. However, small and large organizations have their peculiar characteristics and effects on the culture and effectiveness of the organizations (Daft, 2000). Large organizations are standardized, often mechanistically run, and complex. The complexity offers hundreds of functional specialties within the organization to perform complex tasks and produce complex

products (Geeraerts, 1984). Once established, large organizations can be a presence that stabilizes a market for years. It provides longevity, raises and promotions.

Large organizations are associated with vertical and horizontal complexity, more decentralized (Geeraerts, 1984; Hage and Aiken, 1967). Founders and senior managers do not have sufficient time and expertise to process all the decisions that significantly influence the business as it grows. Therefore, decision-making authority is pushed down to lower levels, where incumbents are able to cope with the narrower range of issues under their control (Robey, 1991). They carry out more written communications and documentation. They have bureaucratic culture, which has an internal focus and a consistency orientation for stable environment. The culture supports a methodical approach to doing business (Daft, 2000). Symbols, heroes and ceremonies support cooperation, tradition and following established policies and practices as a way to achieve goals. There is high level of consistency, and collaboration among members. The organization succeeds by being highly integrated and efficient (Daft, 2000).

Small organizations are responsive and flexible and this guarantees them success in a global economy. Research shows that as global trade has accelerated, smaller organizations have become the norm (Carroll, 1994). Huge investments are giving way to flexible manufacturing and niche marketing as ways to succeed. There is a decrease in average organization size, as most service companies remain small to be more responsive to customers (Carroll, 1994). Small organizations have flat structure and an organic, free-flowing managing style that encourages entrepreneurship and innovation (Daft, 2000; Deutschmann, 1991). Small size of firm encourages motivation and commitment, which are needed for effectiveness. In small organization's top managers can use their personal observation to control (Hsu et al, 1983; Geeraerts, 1984; Carter and Keon, 1989). This implies that small size eases the problem of control.

Jack Welch, Chairman of General Electric, called for a big company/small company hybrid" that combines a large corporation's resources and reach with a small company's simplicity and flexibility. Some big companies like Johnson, Hewlett-Packard, AT&T and Even General Motors are already effecting this suggestion. These companies have all undergone massive reorganizations into groups of small companies to capture the mind-set and advantages of smallness. Daft (2000) further argued that:

"A full-service, global firm needs a strong resource base and sufficient complexity and hierarchy to serve clients around the world. Large or growing companies can retain the flexibility and customer focus of smallness by decentralizing authority and cutting layers of the hierarchy" (pg. 165).

2.1 Organizational Climate

Al-Shammari (1992) defined organizational climate as the "beliefs, values, philosophies and traditions that exist in organizations. On their part, Moran and Volkwein (1992) expanded upon this definition by asserting that organizational climate is a relatively enduring characteristic of an organization which distinguishes it from other organizations: and (a) embodies members collective perceptions about their organization with respect to such dimensions as autonomy, trust, cohesiveness, support, recognition, innovation, and fairness; (b) is produced by member interaction; (c) serves as a basis for interpreting the situation; (d) reflects the prevalent norms asserting that organizational climate is a relatively enduring characteristic of an organization which distinguishes it from other organizations: and (a) embodies members collective perceptions about their organization with respect to such dimensions as autonomy, trust, cohesiveness, support, recognition, innovation, and fairness; (b) is produced by member interaction; (c) serves as a basis for interpreting the situation; (d) reflects the prevalent norms values and attitudes of the organization's culture; and (e) acts as a source of influence for shaping behaviour. Closely allied to the above, Baridam and Nwibere, (2008) defined organizational climate as what distinguishes one organization from another, that influences the behaviour of people within it, and are relatively enduring over time.

Common to all the definitions is the fact that organizational climate encompasses the organizational atmosphere and how employees feel, what employees believe, and what employees perceive to be real within the organizational boundaries. Thus, organizational climate has foundationally been identified as the psychological environment of an organization that affects the organization in manifold ways (Diekhoff, Thompson and Denney, 2006). Earlier research evidence of Likert (1967) in McMurray, Scott, and Pace, (2004) indicates specific examples of some of those properties and suggested that organizational climate is a psychological, multidimensional, complex phenomenon that has an effect on organizational learning, corporate performance, absenteeism and labour turnover rate, as well as employees' tenure. Similarly, the study of McMurray, Scott, and Pace (2004) revealed that organizational climate encourages employee commitment to an organization, its performance, and the employees responsibilities. Organizational climate is purported to be an emergent property because it originates in the cognition and perceptions of individuals, and is amplified through interactions and

exchanges with other unit members to manifest as a higher-level collective phenomenon (Kozlowski & Klein, 2000).

Using a structural questionnaire representing a Likert response type, Litwin and Stringer arrived at the conclusion that different management approaches leads to different climates and that the prevailing climate influences motivation, satisfaction and organizational performance. On their part, Koys and De Cotiis (1991) offered eight typical dimensions organizational climate: Support: The perception of the degree to which superiors tolerate members' behaviour, including willingness to let members learn from their mistakes without fear of reprisal; Recognition: The perception that members' contribution to the organization are acknowledged; Cohesion: The perception of togetherness or sharing within the organization setting, including the willingness of members to provide material risk; Innovation: The perception that change and creativity are encouraged, including risk-taking into new areas where the member has little or no prior experience; Autonomy: The perception of self-determination with respect to work procedures, goals and priorities; Fairness: The perception that organizational policies are non-arbitrary or capricious; Trust: The perception of freedom to communicate openly with members at higher organizational levels about sensitive or personal issue, with the expectation that the integrity of such communication will not be violated; and Resource: The perception of time demands with respect to task completion and performance standards. In this study, some of the components of organizational climate identified by Koys and De Cotiis (1991) and Litwin and Stringer were adopted.

2.2. Corporate Performance Defined

The definition of organizational performance remains a contentious issue among researchers as there are different opinions and definitions of organizational performance (Barney, 1997). To this end, defining, conceptualizing, and measuring performance have not been an easy task. The central issue concerns the appropriateness of various approaches to the concept utilization and measurement of organizational performance (Venkatraman & Ramanujan, 1986). For example, Perotti and Javier (2002), argues that organizational performance is equivalent to the famous 3Es (economy, efficiency, and effectiveness) of a certain program or activity. Daft (2000), defined organizational performance as the organization's ability to attain its goals by using resources in an efficient and effective manner. Quite similar to Daft (2000), Richardo and Wade (2001) defined organizational performance as the ability of the organization to achieve its goals and objectives. Based on the above, the definition of performance has included both efficiency-related measures, which relate to the input/output relationship, and effectiveness related measures, which deal with issues like business growth and employee satisfaction.

Many researchers sometimes confuse the term *performance* with productivity. However, Ricardo and Wade (2001) explained that there was a difference between performance and productivity. Productivity was a ratio depicting the volume of work completed in a given amount of time. Performance was a broader indicator that could include productivity as well as quality, consistency and other factors and emphasised that in result oriented evaluation, productivity measures were typically considered. Richardo and Wade (2001) further argued that performance measures could include result-oriented behavior (criterion-based) and relative (normative) measures, education and training, concepts and instruments, including management development and leadership training, which were the necessary building skills and attitudes of performance management. Hence, from the above literature review, the term "*performance*" should be broader based which include effectiveness, efficiency, economy, quality, consistency behavior and normative measures (Ricardo and Wade, 2001).

Besides its problem of definition, organizational performance has also suffered from a conceptual problem. To emphasise this point, Hefferman and Flood (2000) argues that as a concept in modern management, organizational performance suffered from problems of conceptual clarity in a number of areas. The first was the area of definition while the second was that of measurement. Organizational performance has been conceptualized using financial and nonfinancial measures from both objective and perceptual sources. Objective measures include secondary source financial measures such as return on assets, return on investment, and profit growth. These measures are nonbiased and are particularly useful for single-industry studies because of the uniformity in measurement across all organizations in the sample (Venkatraman & Ramunujan, 1986).

2.3. Relationship between Organizational Climate and Corporate Performance

Over the years there have been several studies on the factors that determine organizational performance. According to Hansen and Wernerfelt (1989) in the business policy literature, there were two major streams of research on the determinants of organizational performance: the first was based on economic tradition, emphasizing the importance of external market factors in determining organizational performance while the second line of research was built on the behavioral and sociological paradigm and saw organizational factors and their 'fit' with the environment as the major determinant of success. The economic model of organizational performance provided a range of major determinants of organizational profit which included: (i) Characteristics of the industry in which the organization competed, (ii) The organization's position relative to its

competitors, and (iii) The quality of the firm's resources. On the other hand, the organizational model of firm performance focused on organizational factors such as human resources policies, organizational culture, and organizational climate and leadership styles. Another study by Chien (2004) found that there were five major factors determining organizational performance, namely: Leadership styles and environment, Organizational culture, Job design, Model of motive, and Human resource policies.

The economic factors and organizational factors model was supported by many researches including Hansen and Wernerfelt (1989) who found in their study that economic factors represented only 18.5% of variance in business returns, while organizational factors contributed 38 % of organizational performance variance. This research focused more on organizational factors that determine organization's performance. Organizational factors were found to determine performance to a greater extent than economic factors indicated by Trovik and McGivern (1997).

Several earlier studies have used many variables to measure organizational performance. These variables include profitability, gross profit, return on asset (ROA), return on investment (ROI), return on equity (ROE), return on sale (ROS), revenue growth, market share, stock price, sales growth, export growth, liquidity and operational efficiency (Thomas & Ramaswamy, 1996; Gimenez, 2000). Although the importance of organizational performance is widely recognized, there has been considerable debate about both issues of terminology and conceptual bases for performance measurement (Ford & Schellenberg, 1982). No single measure of performance may fully explicate all aspects of the term (Snow & Hrebiniak, 1980). There was also inconsistent measurement of organizational performance- although most researchers (Kotter & Heskett, 2011; Denison & Mishra, 1995) measured organizational performance by using quantitative data like return on investments, return on sales and so forth.

Financial measures enable researchers to construct trend analyses and benchmarking analyses (Drew, 1997). Perceptual sources include employee evaluations of organizational effectiveness or financial health and their overall level of satisfaction. These subjective assessments of performance frequently have been used in organizational theory to evaluate organizational effectiveness and overall employee satisfaction. Given the increasing pressure of organizations to satisfy multiple stakeholder groups, there is a need for more complex measures of organizational effectiveness in which overly simplistic single variable models are inadequate expressions of the real world, multi-goal existence of organizations (Kirchhoff, 1977).

Most practitioners seemed to use the term *performance* to describe a range of measurements including input efficiency, output efficiency and in some cases transactional efficiency (Stannack, 1996). According to Doyle (1994), there was no single measure or best measure of organizational performance. Organization adopts different objectives and measurements for organizational performance. Hamel and Prahalad (1989) and Doyle (1994), however, argued that profitability was the most common measurement used for organizational performance in business organizations. This view is supported by Amah and Baridam (2012) who stressed that profitability is one of the best indicator to identify whether an organization met its objectives or not. Other researchers such as Galbraith and Schendel (1983) supported the use of return on assets (ROA), return on equity (ROE), and profit margin as the most common measures of performance. Return on Assets (ROA) is derived by dividing net income of the fiscal year with total assets. Return on Equity (ROE) means the amount of net income returned as a percentage of shareholders equity. It measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

According to Griffin (2003), organizational performance is described as the extent to which the organization is able to meet the needs of its stakeholders and its own needs for survival. Hence, performance should not be wholly equated with certain profit margin, high market share, or having the best products, although they may be the result from fully achieving the description of performance. To Griffin (2003), organizational performance is influenced by multitude factors that are combined in unique ways to both enhance and detract performance. This argument by Griffin (2003) is well supported by Venkatraman and Ramanujan (1986) who postulated that there are two major issues associated with the operationalization of organizational performance. First, what constitutes the construct? That is, how does one define the performance of the organization? Second, what are the data sources that should be used in the measurement of this construct? Should archival (or secondary) measures be used or can respondent (or primary) data be as reliable? Venkatraman and Ramanujan (1986) consider three aspects of performance, among them are financial performance, business performance, and organizational effectiveness and the later have been subsequently known as organizational performance.

They suggested that researchers in addition to using financial indicators should also use operational indicators when measuring organizational performance. The operational indicators may include such measures as new product introduction, product quality, manufacturing value-added and marketing effectiveness. These operational measures could reflect the competitive position of the firm in its industry space and might lead to financial performance. Hence, using a multiple indicator approach to operationalize firm's performance would be superior to using only a single indicator. Conversely, researchers have argued that no one measure is

inherently superior to another and the definition that a researcher adopts should be based on the disciplinary framework adopted for the study (Cameron & Whetten, 1983). According to Hofer (1983), different fields of study will and should use different measures of organizational performance because of the differences in their research questions. In fact, the conceptualization of business performance in strategic management research usually revolved around the use of financial indicators. Thus, indicators based on financial measures such as sales growth, profitability, and earnings per share have been used by researchers. In addition, market-based measures such as variants of stock market returns have been used in previous studies. However, no one of these measures is without flaws (Barney, 1997). The second major issue associated with operationalizing business performance is the source of data used to develop the construct. Data on the performance of a firm can be obtained either from published sources (secondary data) or directly from the firm (primary data). While financial data from secondary sources may be more accessible in the case of the large, publicly held company, such information is extremely difficult to obtain in the case of the small firms.

Objective data on the performance of small firms are usually not available because most small firms are privately held and the owners are neither required by law to publish financial results nor usually willing to reveal such information voluntarily to outsiders (Dess & Robinson, 1984). Besides, financial statements of small firms may be inaccurate because they are usually un-audited. Furthermore, owner/managers of small firms are inclined to provide subjective evaluations of their firm's performance (Sapiena, Smith & Gannon, 1988). Hence, the general consensus among researchers is that secondary sources of performance data represent the ideal source since measures developed using secondary data are less likely to be influenced by the personal biases of the respondent. However, Dess and Robinson (1984) argued that when objective measures of performance are unavailable, as is usually the case with small businesses, subjective measures can represent a reasonable proxy.

Many researchers have used managers' subjective perceptions to measure beneficial outcomes for firms. Others have preferred objective data, such as return on assets. Scholars have widely established that there is a high correlation and concurrent validity between objective and subjective data on performance, which implies that both are valid when calculating a firm's performance (e.g., Dess & Robinson, 1984; Venkatraman & Ramanujan, 1986). As seen in the literature on organizational performance, performance is all about achieving the objectives that organizations/firms set for themselves. The objectives of an organization / firm could be financial, that is to say, profit-making or non-financial such as spreading awareness among a certain community. Organizational performance could be categorized under two categories: financial and non financial. From the foregoing the following hypothesis was derived.

H₀: There is no significant relationship between size and the influence of organizational climate on corporate performance.

III. Research Methodology

This correlational study was conducted as a cross-sectional survey. The study units for data generation were managerial employees in the oil companies and the micro-level of analysis was adopted. A sample size of 438 managerial employees was determined using the Taro Yamen's formula (Baridam, 2001) from seven randomly selected oil companies in Nigeria. After cleaning, 382 copies of the instrument were used for the analysis. In selecting the respondents the simple random sampling technique was adopted. – The dimensions of Organizational Climate adopted for this study are based on the earlier study of Koys and De Cotiis (1991) and includes: recognition, The dependent variable is Corporate Performance. The measures of Corporate Performance adopted for this study are based on the earlier study of Gunasekaran et al (2005) and includes profitability and market share. **Profitability**- A five-item profitability scale was developed based on the survey of organization questionnaire. **Market share**- A five-item market share scale was developed based on the survey of organization questionnaire. **Recognition**- A five-item recognition scale was developed based on the Organizational Climate. **Support**- A five-item support scale was developed. **Cohesion**- A five-item cohesion scale was developed. **Organizational Size**- A five-item organizational size scale was developed based on the survey of organization questionnaire. A five-point Likert type scale was used (ranging from 5-strongly agree to 1- strongly disagree). For test of reliability of the scale, the following Cronbach's alpha coefficients were obtained: Size (0.60) Recognition (0.70), Support (0.70), Cohesion (0.80), Profitability (0.70), and Market share (0.80). In accordance with Nunnally (1978) model, which recommends a bench mark of 0.70, the reliability levels of the study scale are acceptable. Spearman's rank correlation statistical tool was used to test the hypothesis. The result as presented was obtained.

IV. Research Results

Table 1: Partial correlation co-efficient of the moderating role of organizational size on the relationship between organizational climate and corporate performance

Moderating Variable

Correlations

Control Variables	Variables	Stats	OC	OP	Size
.none. α	OC	Correlation Sig (2-tailed) d.f	1.000 .000 0	.687 .000 38	.639 .000 38
	OP	Correlation Sig (2-tailed) d.f	.687 .000 38	1.000 .000 0	.639 .000 38
	Size	Correlation Sig (2-tailed) d.f	.639 .000 38	.687 .000 38	1.000 .000 0
Size	OC	Correlation Sig (2-tailed) d.f	1.000 .000 0	.623 .000 37	
	OP	Correlation Sig (2-tailed) d.f	.623 .000 37	1.000 .000 0	

α . Cells contain zero-order (Pearson) Correlations

OC= Organizational Climate, CP= Corporate Performance

Source: SPSS output, 2012

Table 1 above shows that a significant and positive relationship exists between Organizational Climate and Corporate Performance ($r = 0.687$, $PV = 0.005 < 0.05$). The table also reveals that Size also had a significant and direct relationship with Organizational Climate ($r = 0.639$, $PV = 0.000 < 0.05$). The positive sign of the r value is an indication that when size is enhanced, Organizational Climate and Corporate Performance are also enhanced.

In addition, Table 1 shows that zero order partial correlation (ZPC) = 0.687, Controlled Partial Correlation (CPC) = 0.623. The difference between the Zero order Partial Correlation (ZPC) and Controlled Partial Correlation (CPC) ($0.687 - 0.623 = 0.064 > 0.01$), hence the researcher rejects the null hypothesis and concludes that Organizational Size significantly moderates the relationship between organizational climate and corporate performance.

V. Discussion, Conclusion and Recommendation

5.1. Moderating role of Organizational Size on the relationship between Organizational Climate and Corporate Performance

The hypothesis sought to examine the Moderating role of Organizational Size on the relationship between organizational climate and corporate performance. Hence it was hypothesized that Organizational Size will not moderate the relationship between organizational climate and corporate performance. Data analysis however revealed that Organizational Size moderates the relationship between organizational climate and corporate performance ($r = 0.687$). Organizational size implies the number of employees and hierarchical levels in an organization. It is typically characterized by the number of employees and the level of activity that takes place in the organization. Some organizations are small and there is little or no difference between the owner of such an organization and its owner. The activities in large organizations require bureaucracy for them to operate efficiently. The level at which decision-making and task accomplishments are realized enhances the structure of the organization. The perception of the people towards the organization as an entity that has efficient and effective structure enhances the reputation of the organization. The oil companies in Nigeria are of various sizes. The big ones succeed by being highly integrated and efficient (Daft, 2000). The small ones succeed by being flexible and responsive (Deutschmann, 1991; Daft, 2000).

VI. Recommendations

Based on the findings and conclusion above, the following recommendations were made: firstly, Size of organization should be managed effectively to empower workers and improve the competitiveness of organizations. Secondly, oil companies should provide very conducive work environment that will recognize the work efforts of organizational members in order to make them contribute positively to the attainment of the corporate objectives of the organizations. Thirdly, oil companies should develop policies that will promote collective work efforts that will make organizational members support one another in the discharge of their

duties. Collective efforts will enable the organization to complete their task as and when due. Fourthly, oil companies should reward committed employees to promote loyalty.

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