THE ROLE OF ETHICAL LEADERSHIP ON THE RELATIONSHIP BETWEEN DYNAMIC CAPABILITY AND PERFORMANCE OF MATATU SAVING AND CREDIT COOPERATIVE SOCIETIES IN MERU COUNTY, KENYA

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A THESIS SUBMITTED TO THE SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE CONFERMENT OF MASTER'S DEGREE IN BUSINESS ADMINISTRATION

KENYA METHODIST UNIVERSITY

SEPTEMBER, 2020

DECLARATION

This thesis is my original work and has not been presented for a degree or any other award in any university.

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DEDICATION

I dedicate this thesis to my late father, Manyara Senior who instilled in me the culture of reading. May his soul continue resting in peace.

ACKNOWLEDGEMENT

My sincere gratitude goes to my supervisors, Dr. Clement Nkaabu and Mr. Abel Moguche, for providing me with the required guidelines. Secondly, I thank my classmates and colleagues who have assisted me during thesis writing. Most importantly, I thank the management of the School of Business Administration for providing the required material throughout the period of the writing the project. Furthermore, I would like to thank Dr. Rintari, Postgraduate coordinator for going out of her way in offering guidance and encouragement. Special thanks goes to the team at the Kenya Methodist University Library for their support and guidance especially on APA checks and antiplagiarism checks. I would also like to thank my wife Charity for emotional support and encouragement during the period of writing project thesis.

ABSTRACT

The public transport sector in Kenya is dominated by Matatus. Matatus plays a crucial economic role in facilitating the movement of people and goods. However, despite the positive contribution to the economy, the Matatu industry is facing challenges of poor performance and lack of discipline. The research gap that the study sought to address is the lack of studies investigating the role of ethical leadership on the relationship between dynamic capability and the performance of Matatu Saccos. Therefore, the study aimed at determining how ethical leadership affects the relationship between dynamic capability and performance of Matatu Saccos in Meru County. The research investigated three factors namely the effects of dynamic capabilities on performance, effects of ethical leadership on performance, and the moderating effects of ethical leadership on the relationship between dynamic capability and performance. Three types of dynamic capabilities namely adaptive capability, absorptive capability, and innovative capability were investigated. The research was guided by the theory of dynamic capabilities and the ethical leadership model. A descriptive cross-sectional survey research design was utilized. The target population was 8 Matatus Saccos operating in Meru County that had complied with Saccos regulations. The census approach was utilized because of the small sample size. All the 54 board members of the 8 Saccos were selected. Closed-ended questionnaires were used to collect data A total of 54 questionnaires were distributed to the respondents using pick and drop method. 42 questionnaires were filled, giving a response rate of 78 percent. A pilot study was conducted using 5 board members to determine the feasibility of the study. The reliability of the instruments was determined by Cronbach's alpha while content validity was determined through expert reviews on the quality of questions in the questionnaires. Data analysis was done using SPSS software; which analyzed the data using means, percentages, and frequencies, and inferential statistics. The presentation of the data was done using frequency distribution tables. Data was tested to ensure conformity with regression assumptions. The regression results of dynamic capabilities established that adaptive capability ($p>0.05$) and innovative capability ($p>0.05$) had no effect on the performance of Matatu Saccos. Absorptive capability had a statistically significant relationship with the performance ($p<0.05$). The study also established that ethical leadership had a significant statistically significant relationship with performance ($p<0.05$). The regression analysis of the third objective established that ethical leadership had a significant moderating effect on the relationship between dynamic capability and performance ($p<0.05$). The findings that adaptive capability and innovative capability have no relationship with performance disagrees with most of the previous studies. The research recommends that management should commit time and resources in pursuit of dynamic capabilities to prevent disruption of activities. Future studies should include more variables and be conducted in different geographical regions

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ABBREVIATIONS AND ACRONYMS

SPSS – Statistical Package of Social science.

Sacco-Savings and Credit Co-Operative.

Q-Q-Quantile-Quantile plot.

KMO-Kaiser-Meyer-Olkin

VIF-Variance Inflation Factor.

APA-American Psychological Association.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Public transport sector includes all the firms that provide transportation services in an economy. The sector plays crucial roles in the economy through facilitating the flow of people and goods (Roberts & Thum, 2005). The transport sector covers all the major modes of transport such as marine, road, rail, air and road transport. The public transport regulator and providers are facing challenges due to increasing consumer expectations, cost cutting pressures from the shareholders, increasing and aging populations, and urbanization (Alotaibi & Potoglou, 2018). One of the major concerns for the players in the sector is to establish and embrace the emerging finance models to cut the costs, and utilize the emerging technologies to improve the customer experience, optimize the asset lifecycle and increase the capacity (KPMG, 2018).

The top five countries with the advanced public transport sector in the world are China, Singapore, United Arab Emirates, Netherlands and Switzerland (Charles, 2018). The transport advancement in the public transport system in developed countries is attributed to the availability of financial resources and good leadership that enables proper infrastructural development plans and policies to govern the sector (World Bank, 2014). In Africa, the public transport sector faces many problems such as poor infrastructure, high costs, lack of financial resources, among others. These challenges are caused by the lack of effective strategic plans and

policies (Nzuve & Mbugua, 2012). In Kenya and neighboring countries, the public transport sector is dominated by privately owned vehicles. According to Myers (2014), the public transport sector in Kenya is inefficient due to poorly developed infrastructure such as roads and railway network, congestion and inefficient polices.

The emerging trends in the global transport sector are climate change, advancement in technology, globalization, and demographic shifts (Altshuler & Bachmann, 2018). These trends forces the providers to cope with the shrinking labor pool in developed countries, high energy costs, and increase in costs due to more investments. According to Altshuler (2018), the large transport firms will benefit from these trends because they will be able to invest in latest technologies and lobby the government support. However, the small firms will be disadvantaged because they will not have the capabilities to compete with multinationals. In the attempts to compete with the multinationals, the firms may engage in unethical activities such as illegal trafficking, smuggling, criminal use of transport services, and, fraud and bribery (Anciães & Thomopoulos, 2016). The large transport firms also engage in unethical practices; especially bribery and fraud to win the contracts.

Due to increased cases of unethical practices in the public transport sector, there has been increased emphasis of ethical leadership. Ethical leaders demonstrate virtues, morals, and good character during the performance of their duties, and also address the needs of the workers. Ethical leaders motivate the workers to comply with the organization code of conduct thereby minimizing unethical practices (Mihelic, Lipicnik & Tekavcic, 2010).

The use of dynamic capability approach reduces the ethical issues because the organization is able to adapt to changing environment through creation of value; thus enabling the firm to remain competitive. Therefore, the firm that adopts the dynamic capability approach is able to reduce unethical practices because it is able to compete ethically (Arend, 2012). The adoption of the dynamic capabilities concept also increases the performance of the firms. Therefore the implementation of the dynamic capabilities approach improves the competiveness of the firms and also reduces the unethical practices.

Despite the challenges that the public transport sector face, the governments usually encourage their citizens to use the public transport due to the associated benefits such as reduced carbon emissions, lowering the traffic congestion, reducing rural-urban migration and creation of employment opportunities (Pojani & Stead, 2015).

In the developing countries, the transport sector is controlled by the private sector due to the failures of the government intervention programs in the public transport sector such as state-controlled corporations (Macharia, 2016). However, due to the benefits associated with public transport, the governments are using various policies to encourage citizens to use the public transport means of transport. For instance, the Kenya Government has introduced the buses that have facilitated the transport of people within the Nairobi city and its environs. Despite the efforts by the government, the public transport sector is dominated by Matatus which are associated with unethical practices and disregard of the passengers' safety.

1.2 Dynamic Capability

The dynamic capabilities approach argues the organization ability is caused by the capability of the firm to adapt to the changing environment by creating value; thus gaining a competitive advantage over the competitors (Wójcik, 2015). The concept of dynamic capability is crucial in the business context because of the dynamic changes in the business environment which causes uncertainty (Sako & Chondrakis, 2016). The uncertainty is caused by increasing customer expectations, globalization and changes in technology.

According to the concept of dynamic capabilities, the differences in the firms' capabilities are rooted in three factors. The first factor is asset positions whereby the firm capability is embedded in the resources that shape the expansion. The second factor is processes such as managerial systems, resources allocation, and governance structure (Kaur & Mehta, 2017). The process shapes the adaptability of the organizations and the ability of the firm to use the assets effectively and efficiently. The third factor is paths whereby the capabilities do not develop in discrete projects but paths (Pisano, 2015). According to Pisano, the organizations face challenges when determining correct paths for establishing capabilities to create competitive advantage. The differences in the dynamic capabilities among the firms are determined by managerial choices. The key to organizations success in using sustainable dynamic capabilities is utilizing the capabilities more accurately than competitors (Pisano, 2015).

Dynamic capability concept examines the methods and sources of creation of wealth among the firms operating in an industry with rapid changes in technology (Pundziene & Teece, 2016). Teece et al. (1997) identified learning, coordination, integration, and reconfigurations as the major elements of dynamic capabilities. Teece further argued that the dynamic capabilities are shaped by the internal and external forces. This research adopted the definition by Teece; thus dynamic capability was defined as the organization's ability to build, integrate and reconfigure external and internal competencies to address the challenges of the dynamic business environment.

1.3 Performance of Matatu Saccos

According to Moullin (2007), performance measurement refers to the collection and analyzing the data on how the organization is performing various processes to achieve the objectives. In the public transport sector, the performance measurement techniques are used by the authorities to determine whether the needs of the shareholders are met, for instance, the audited financial statement of the transport Saccos in Kenya are required to be audited by an independent auditor and a copy sent to the State Department of Co-operatives. The cooperative department ensures that the rights of the shareholders are safeguarded. Additionally, through the use of the performance measures, the firms are able to assess the performance, create and monitor service improvements and attract more investors in the public transport sector.

Išoraite (2004) identifies four indicators that are used to assess the performance of the public transport sector. These indicators include input or resource based, output, results, and impact indicators. The resource-based or input indicator is used to determine the measure of the capability of using the budgeted funds. Output indicators are used to measure the utilization of the funds; while the results indicators determine the effect of the intervention program. The impact indicators evaluate the impact of the program beyond the immediate effect of its beneficiaries. According to Roberts and Thum (2005), the performance of the public transport sector can be measured by accessibility. When proposing the policy changes in the India transport sector, Singh (2005) used efficiency measures to determine whether the sector met the transport demands for the country. The authors concluded that the transport sector was inefficient due to the concentration in the cities which limited the services to the city residents. Carvalho, Syguiy, and Silva (2015) used the effectiveness and efficiency measures to determine the performance of the public transport sector in Brazil. The authors define efficiency as the ability to meet the financial and service objectives while effectiveness is the ability to meet the service users comfort needs According to Carvalho et, al. (2015), performance is assessed through efficiency and effectiveness; whereby efficiency is the ability to meet the financial objectives while effectiveness is the ability to use the resources to meet the needs of the clients.

Another performance measure is the growth in revenue. Growth in revenue is increase in the level of revenue over a specific period of time. Most of the firms

compare revenue growth on annually, semi-annually or monthly basis (Eggert, et al., 2013). Through the revenue growth analysis, the organizations are able to compare their performance with other organizations in the industry. If the revenue increase is stable from one year to the next, then the firm is performing well. On the other hand, the firm that has decreasing revenues is performing poorly. The uneven increases and decreases is an indicator that the organization is being affected by the changes in the market (Lazăr, 2016). The revenue growth as a performance measure has been used by various researchers such as. For instance, Sam and Hoshino (2011) used the revenue measure to determine the performance of ICT firms in Asian countries. Other researchers that have used revenue growth as a performance measure include (Lazăr, 2016) and (Suntraruk, 2018).

The survival probability has also been used by the researchers to determine the performance of the firm. According to the survival analysis, performance is determined by corporate governance, financial structure and asset structure (Barbosa, 2016). A firm that has corporate governance problems, and poor asset and financial structure is likely to become insolvent in the future. However, even if the financial structure is appropriate, the failure can occur due to inappropriate asset structure (Barbosa, 2016). The probability of survival has been used for research purposes. Baumöhl, Iwasaki and Kočenda (2019) analyzed the survival probability to determine the performance of the firm in the European. Another popular measure that is used to measure the performance of a firm is competitive advantage. Competitive advantages are attributes that make the firm products superior to the

competitor ones. For instance, in the Matatu industry, some of the competitive advantages include good safety record, charging reasonable prices, and roadworthy vehicles. Therefore, the competitive advantage was used as a performance measure in this study because it is easy to establish the Saccos competitive advantage. Teeratansirikool et al (2013) used competitive advantage as performance measure when researching on firm's competitive strategies; thus the measure was appropriate the study.

Due to the availability of studies that have used the efficiency, revenue growth, the firm's survival, and competitive advantage, the study adopted these measures to determine the performance of the Matatus Saccos.

1.4 Ethical Leadership

Ethical leadership includes diverse elements that enable the individuals to do the right things. Dion (2012) defines an ethical leader as the one who follows the ethical principles during the discharge of his/her duties. The main goal of the ethical leader is to motivate the followers and energize the powers of love and healing. According to Mihelic, Lipicnik, and Tekavcic (2010), ethical leadership includes building the relationships based on trust, respect, and mutual liking.

Ethical leaders apply their skills in the workplace and the community to meet the goals of the respective organizations. Furthermore, ethical leaders are good communicators, and also ensure that the tasks that they manage are not prone to ethical failures (Arend, 2012). Ethical leaders receive positive evaluations from the

employees because they treat the employees in a respectful way and create a conducive work environment that motivates the staff (Caldwell & Anderson, 2017). According to Caldwell (2017), ethical leadership entails using fair procedures when making decisions, perceived fairness of the outcomes and the recognition' of the individual effort. When the ethical leaders create a trustful and fair work environment an ethical work culture is created in the organization.

An integrated literature review by Monahan (2012) identified ethical leadership as involving maximization the welfare of the subordinates, based on the Utilitarianism Theory, and advocating for the right thing regardless of the consequences, based on Kant's Ethical Theory.

Starratt (2010) identified elements of ethical leadership which include communication of the moral standards, moral behavior in leading, integrity, honesty, and authenticity. Starratt (2010) definition has broadened the scope of ethical leadership; therefore it was utilized for this study. Thus, the ethical leadership in this research was defined as leadership that meets the attributes identified by Starratt: which are: integrity, open communication, authenticity, honesty, moral behavior and moral standards.

1.5 Matatus Saccos in Kenya

Matatu in Kenya started in the early 1950s. After the independence people migrated from rural to town to look for employment. Due to poverty, people would not have afforded transport hence the minibuses came in to offer transport. However, private

ownership of public transport vehicles was illegal until 1973 when it was legalized (Mutongi, 2017). By 2010 matatus consisted eighty percent of the public transport sector in Kenya. Matatus still play a crucial role in the economy by facilitating the flow of people and goods. Matatus Saccos are estimated to have an annual turnover of over Kshs 73 billion, and also contribute over four billion to the insurance and one billion in taxes (Walter, 2015). In 23rd December 2010, when the Ministry of Transport ordered the Matatus in the country to join Saccos, matatus had by then dominated the public transport sector, and around twenty-five thousand Matatu were in operation (Macharia, 2016). By the end of December 2010, approximately 655 Matatu Saccos were registered with the Ministry of Cooperative Development and Marketing

Formation of Matatu Saccos ensured that there were sanity and organization of the country public transport sector, and also improved road safety. The Saccos were user owned and user benefited organizations, they helped in ensuring that the risks of members were managed. Through them, people could join, and save through the contribution deducted from their salaries, or monthly cash contribution for self-employed members (Douglas, Philip & Nafula, 2015). Saccos also ensured that they were tapping into the economies of scale due to the cooperative business model that integrates the wealth of the members.

Matatus provide services to millions of people in the country; hence they are the backbone of the transport sector of the country. The legislation is therefore necessary for ensuring the balance of the cost of operation with incentives of

compliance. The Traffic Act (cap.403) and the Transport Licensing Act (cap.404) are the two Acts of Parliament that help in regulating the Matatus Saccos (Muturia, 2013). International Labor regulation for example; ensures that public service drivers have maximum working hours that they can work, the minimum age of employment and contracts of service. Transport Licensing Board also ensures that all Matatus Saccos that are licensed are competent and adhere to the rules that are set. The agency also ensures that all the public service vehicles belong to any Sacco before they are licensed, hence discouraging any licensing for an individual Matatu.

There are 57 Matatus Saccos in the Meru region, and the surrounding counties of Laikipia, Isiolo and Embu. Some of the Saccos include Menya, Menany, Meru Prestige Company, Rumeto, Meru Nissan, Inana, Maryland among others. The Saccos in the region were formed after a government directive in 2010 that required all the matatus to operate at specific routes and belong to a Sacco. For one to join any of the Saccos you had to pay and still pay a membership fee that ranges between one hundred and three hundred thousand depending on how well established the Sacco is (Muturia, 2013). The money buys you a position as a franchise, if the Sacco is doing well you can recover the money in duration of three months of doing business. The Sacco leadership performs crucial role of ensuring all the traffic rules are obeyed and the Saccos policies are followed .The leadership also ensure that passengers are not overcharged and complain are handled; therefore ensuring that matatus gain public confidence.

1.6 Statement of the problem

The changes in global business environment should result in the improvement of performance of public transport sector due to emergence of technologies that improve efficiency, safety, and convenience. However, the changes in global business environment have caused dynamic changes such as changes in legislation, volatile oil prices, issues related to financing and mobility demand (Douglas, Philip and Nafula, 2015) that have negatively affected Kenyan transport industry. If not properly dealt with, these dynamic changes can have adverse effects on the performance of matatu Saccos.

One of the primary ways that the stakeholders such as the government deal with the challenges that face the matatu sector is the establishment of regulations (Mutongi, 2017) for instance, Traffic Act, Sacco company requirement, Central Business District Decongestion, and 14 seater requirements. These regulations are mainly aimed at reducing the indiscipline such as overcrowding and overloading; which have been blamed for many accidents. However, the enactments of policies have a limited impact on the performance of matatu Saccos; therefore, many stakeholders have resulted in self-regulations. One of the tenets of the self-regulations that various industries utilize is ethical leadership (Joosten et al., 2013). Ethical leaders enhance employees' self-efficacy, loyalty, recruitment policies, staff loyalty, and effective conflict resolution; which can lead to performance improvement.

Most scholars who have researched the matatu sector have concentrated on the performance. For instance, Mutuira (2013) researched on the factors influencing the

performance of the Matatu Saccos. The researcher established that business management and entrepreneurship skills have an impact on the performance of the Saccos. Other researchers who have studied the performance of the public transport sector in Kenya; with a specific focus on the matatus are (Mwaura, 2014; Walter, 2015 & Mwendwa, 2016). Macharia (2016) investigated the regulation in the transport sector and concluded that employment contracts, plays a crucial role in safeguarding the welfare of the drivers. Review of various scholarly works such as Mathivathanan et al. (2017) and Nedzinskas et al. (2013) indicates that dynamic capabilities have a positive impact on the performance; however, there exists a research gap because there is no study that has been conducted on effects of dynamic capacities on the performance of matatu Saccos.

Another research gap stems from limited empirical information on how ethical leadership affects the relationship between dynamic capabilities and performance. Therefore, this study aimed at determining the role of ethical leadership on the relationship between the dynamic capabilities and the performance of matatu Saccos.

1.7 Research Objectives

General Objective

The general objective of the study was to determine the role of ethical leadership on the relationship between dynamic capability and the performance of Matatu Saccos in Meru County.

Specific Objectives

i. To determine the effect of dynamic capability on the performance of matatu Saccos in Meru County.

ii. To establish the effect of ethical leadership on the performance of matatu Saccos in Meru County.

iii. To investigate the moderating effects of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.

1.9 Research Hypotheses

H_{01} There is no statistically significant relationship between dynamic capability and performance of matatu Saccos in Meru County.

H_{02} There is no statistically significant relationship between ethical leadership and performance of matatu Saccos in Meru County.

H_{03} There is no statistically significant moderating effect of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.

1.10 Significance of the Study

The study contributes to the literature of dynamic capability and ethical leadership. Specifically, the research provides knowledge on the application of the dynamic capabilities in enhancing the performance of the public transport sector. Also, the study contributes to knowledge on how ethical leadership can affect the impacts of

the application of dynamic capability approach on the performance of the public transport sector. Additionally, the research will assist the government when making the policies to enhance the efficiency of the public transport sector. The study will also benefit the players in the public transport sector such as Matatu Saccos when developing ethical policies and designing the employee training programs. The research will also enable the public transport firms to enhance the performance by applying the dynamic capabilities and ethical leadership approaches. The research will also benefit the matatu owners because the adoption of dynamic capabilities approach will lead to enhanced performance hence resulting in increased return on investment. The study will facilitate the matatu Saccos to implement the ethical leadership principles. The use of ethical principles will lead to customer satisfaction and improve safety because the Saccos will focus on fulfilling the needs of the customers; including safety and satisfaction.

1.11 Scope and Limitation of the Study

The research was carried out in Meru County. This region was suitable because there are many Matatu Saccos that operate in the region and the ease of accessibility due to a good road network across the county. The main limitation of the study is that some respondents were unwilling to provide the correct information because of the fear that it may have been used by the competitors. To improve the response rates, the respondents were assured of privacy and confidentiality. The researcher also assured the subjects that the data was intended to be used for academic purposes only. Another limitation of the study was difficulties among some

respondents in interpreting the questionnaires; to deal with this issue, the questions asked were simple and straight forward.

DEFINITION OF KEY TERMS

Dynamic capability: The ability of an organization to build, integrate and reconfigure external and internal capabilities to cope with dynamic changes in the environment (Teece, 2013).

Effectiveness: Capability of producing the desired results (Carvalho, Syguiy & Silva, 2015).

Efficiency: Performing particular activities, with minimal resources or without wasting the resources (Carvalho, Syguiy & Silva, 2015).

Leadership: The act of influencing the activities of the followers to facilitate the achievement of particular goals and objectives (Winkler, 2010).

Ethical leadership: A form of leadership that that follows the acceptable ethical values by communicating ethics and value messages, and modeling the ethical behaviors of the followers (Monahan, 2012).

Performance: The output and outcomes of an organization when compared with the inputs, goals and objectives (Carvalho, Syguiy & Silva, 2015).

Sacco: An organization that is formed by the voluntary members to achieve certain goals such as saving or advancing credit to the members (Douglas, Philip & Nafula, 2015).

Matatus: Private owned vehicles operating in public transport sector in East Africa region (Mutongi, 2017).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter analyzes the resource-based theory, knowledge-based theories, theory of dynamic capability and social learning theory. The review of literature summarizes the theoretical aspects of dynamic capability, ethical leadership and firm's performance. The conceptual framework indicates the relationship between the independent and dependent variables and the moderating effect on the variables.

2.2 Theoretical review

The study was guided by the resource-based theory, knowledge-based theories, and dynamic capability approach.

Resource-based theory

The concept of dynamic capability was developed based on the principles of a resource-based model. According to the resource-based theory, the difference in the performance among the firms in the industry is caused by the firm's specific attributes, and their effect on the profitability (Foss & Stieglitz, 2010). The resources are all the elements under the control of the firm such as assets, human resources, capabilities, organization processes, knowledge, firm attributes, among others (Hitt, Xu & Carnes, 2016). When the firms have resources that are non-substitutable, inimitable, rare and valuable; then the competitive advantage is achieved. If the competitors cannot easily imitate the firm's resources, the long-term

value-adding strategy can be established. Furthermore, if the assets of an organization are not easily imitable by the competitors', then the firm can benefit from the supernormal profits. According to Hitt et al. (2016), the firms establish strategies to prevent the diffusion of firm-specific resources across the sector. Although the resource-based theory is used to explain the competitive advantage of a firm in an industry, the approach has a limitation because it fails to explain how the companies cope with the dynamic changes in the environment (Szymaniec-Mlicka, 2014) thus the dynamic capability model was developed to explain how the firm adapts to the turbulent markets. The model was relevant in this research because it explained how the firm uses the resources to achieve the competitive advantage over the rivals. However, according to Kraaijenbrink, Spender and Groen (2009), the resource based theory is applicable for the large firms with a strong resource base. Thus the application of this theory in this research was limited because most of the Matatu Saccos are small with few resources.

Knowledge-based theory

Knowledge is contained in various components of the organization such as systems, documents routines, policies, identities, and human resources. According to this model, knowledge is the most important resource in a firm, because the knowledge resources are difficult to duplicate; thus enabling the firm to achieve competitive advantage. The firm has the role to acquire knowledge-based resources; with other resources and capabilities which enables it to achieve a sustainable competitive advantage (Sáez et al., 2013). For the firm to successfully use the knowledge-based

resources, the knowledge must be created and transferred. The process of creation of knowledge involves making it available and amplifying the individual knowledge-based resources and transferring it across the organization (Medase & Barasa, 2019).

The coordination of knowledge across the organization is challenging due to the diverse goals of the organization members, and different goals between the management and the shareholders. Grant (1996) proposes various mechanisms to coordinate the specialized knowledge across the organization. The first action developing rules and directives such as procedures, social norms, and etiquette; these rules will guide during the coordination process. Also, establishing routines and scheduling guides the employees when performing specialized tasks. The final mechanism is group problem solving, especially in the uncertain and complex tasks that require personal contact and information.

The model was relevant in this research because a firm that has dynamic capability can create and integrate the knowledge-based resources; thus achieving a competitive advantage. Furthermore, Chien and Han Tsai (2012) established that knowledge resources are crucial in the development of dynamic capabilities. According to Chien, the knowledge-based theory has drawback because there are knowledge transfer barriers caused by the competition among the firms. In the Matatu sector, there is intense competition among the Saccos; thus inhibiting the transfer of knowledge among the Saccos; thus the model was not be applied in this study.

Social learning theory

Social learning theory argues that the leaders influence the workers by modeling the process that involves the transition of behaviors, value, and attitudes; thus enabling the employees to learn acceptable and unacceptable behavior. Ethical leaders motivate the employees to emulate them; while unethical leaders are likely to cause the employees to engage in activities that are unethical or against the regulation of the firm. The organization that has ethical leaders enables the employees to be moral pioneers who focus on doing the appropriate behaviors. Iszatt-Whit and Saunders (2017) narrates that it is the duty of the leaders to provide an example of appropriate ethical actions so that the followers can imitate the moral behaviors.

The characteristic of an ethical leader includes respect for others, treating others fairly and honesty. Brown, Treviño and Harrison (2005) argues that ethical leadership is social learning because the leaders influence the ethics of the followers through modeling. Brown et al. (2005) defines modeling as the various psychological matching processes such as identification, imitation, and learning. Through the modeling, the employees can learn which behavior is rewarded or punished; thus enhancing ethical conduct in the organizations. Leaders play a crucial role in the modeling through their assigned roles, authority, success and power to affect the behaviors and the outcomes of the subordinates.

This model was suitable for this research because the employees pay attention to the behaviors which are rewarded or punished and, these rewards and punishment

contribute to the ethical behaviors in the organization. Thus, the social learning approach explains why the matatu Saccos that have ethical leaders have also employees who have value integrity. Furthermore, the system of the rewards and punishment is also used by the leaders to encourage ethical behavior or to discourage the rogue behavior. The social learning theory assumes that the leaders work with the subordinates to manage the behavior of the subordinates, according to Winkler (2010), this assumption is a limitation because in reality, the employees are not involved in the policy making.

Dynamic capability theory

The dynamic capability approach emerged due to the dynamic environment which poses challenges to the firms when attempting to achieve sustainable competitive advantage (Teece, Pisano & Shuen, 1997). The underlying assumption of this approach is that the firms are able to seize opportunities and reconfigure them with the environmental change; thus achieving a sustainable competitive advantage. There are various types of dynamic capabilities; but this study will use adaptive, absorptive and innovative dynamic capabilities as discussed below.

Adaptive capabilities

The adaptive capability is the ability of the organization to identify and capitalize on new market opportunities. The adaptive approach focuses on the searching and balancing between the exploitation and exploration strategies (Sáez, López, et al., 2013). During the development of adaptive capabilities, the firms undergo

continuous and comprehensive changes in capabilities, resources, modes of organizing, products, and services. The ability of the firm to survive in an industry depends on its ability to align the resources with the external demand, and the capability of adapting to the environment (Kaur & Mehta, 2017). The firms that use the adaptive capability approach are able to examine the market, allocate resources, monitor clients, maximize the external opportunities and respond to the dynamic market changes (Biedenbach & Müller, 2012).Through the utilization of adaptive approach, the management is able to encourage staff to challenge the outdated culture; thus allowing the firms to respond quickly to the changes by shifting the business priorities (Gibson& Birkinshaw, 2004). In the context of this study, adaptive capability explained how the matatu Saccos positioned themselves in the market and challenge the old practices such as corruption, and inter-conflicts, which enabled them to respond quickly to the changes.

Absorptive capability.

Cohen & Levinthal (1990) define adsorptive capability as the organization ability to recognize the emerging external information, assimilate, and apply it to gain a competitive advantage. The ability of the firm to acquire, assimilate, and use the new information is crucial in every industry; especially in the sectors that require innovation such as telecommunication, or the pharmaceutical. According to Lane, Salk and Lyles (2001), learning occurs through a series of acquisition of external knowledge, application of knowledge and maintaining the knowledge. Lane et al.

(2001) established that the absorptive capability is crucial for the organization performance and the firms-inter-learning.

Absorptive capability promotes innovation and learning which enhances the research and development (Medase & Barasa, 2019; Schweisfurth & Raasch 2018) thus in this study, the absorptive capability was expected to improve the performance of the firm. In this study, the absorptive capabilities explained how the matatu Saccos acquire new knowledge from partners and other industries; thus enabling the development of innovative services.

Innovative capability

Innovative capability is the ability of the organization to create new products through strategic orientation with advanced actions and methods (Wang& Ahmed, 2004). The innovative capability is grouped depending on the degree of innovation into radical and incremental innovation. Radical innovation is the ability to generate innovations that notably transform the existing services or products; while incremental innovation is the ability to generate innovations that reinforce and refine existing products and services. The organizational effectiveness is grouped into three dimensions; technological sophistication, the strategic tendency to pioneer, and market innovative (Cameron, 2013).

The innovative capability is particularly important in new firms that seek to introduce new product or service to the market. However, for the established firms, the dynamic capability depends on how well they can produce new products or

services to deal with the dynamic changes in the business environment such as increased competition and changing customer preferences (Aas & Breunig, 2017). Hagedoorn and Duysters (2002) established that the firm's innovative capabilities can be acquired from the industry through collaborations with different organizations.

According to Mutai (2017), innovative dynamic capability indicates the ability of the managers to establish innovative plans to produce new innovative products or services. Wang & Ahmed (2004) researched on various dimensions of measuring the innovative capability and concluded that there are three measures which are; goods and services, strategic innovative orientation, process innovation, and innovation through the marketplace. In this study, the innovative capability was operational and structural processes that promote innovation, change, and development among matatu Saccos.

2.3 Empirical Studies

Concept of performance

According to Carvalho, Syguiy and Silva (2015), the performance of a firm is determined by efficiency and effectiveness. The efficiency reflects the organization performance margins while effectiveness is the accomplishment of the interest of the passengers. Carvalho defines efficiency as the ability of the transport firms to attain passenger satisfaction with the minimum number of fleets, which leads to the

reduction of the operational costs. Effectiveness, on the other hand, is the ability of the service provides to meet the needs of the clients.

Išoraite (2004) identifies four indicators that are used to assess the performance of the public transport sector. These indicators include input or resource based, output, results, and impact indicators. The resource-based or input indicator is used to determine the measure of the capability of using the budgeted funds. Output indicators are used to measure the utilization of the funds; while the results indicators determine the effect of the intervention program. The impact indicators evaluate the impact of the program beyond the immediate effect of its beneficiaries. According to Roberts and Thum (2005), the performance of the public transport sector can be measured by accessibility. When proposing the policy changes in the India transport sector, (Singh, 2005) used efficiency measures to determine whether the sector met the transport demands for the country. The authors concluded that the transport sector was inefficient due to the concentration in the cities which limited the services to the city residents. Carvalho, Syguiy, and Silva (2015) used the effectiveness and efficiency measures to determine the performance of the public transport sector in Brazil. The authors define efficiency as the ability to meet the financial and service objectives while effectiveness is the ability to meet the service users comfort needs According to Carvalho et al (2015), performance is assessed through efficiency and effectiveness; whereby efficiency is the ability to meet the financial objectives while effectiveness is the ability to use the resources to meet the needs of the clients.

Another performance measure is the growth in revenue. Growth in revenue is increase in the level of revenue over a specific period of time. Most of the firms compare revenue growth on annually, semi-annually or monthly basis (Eggert et al 2013). Through the revenue growth analysis, the organizations are able to compare their performance with other organizations in the industry. If the revenue increase is stable from one year to the next, then the firm is performing well. On the other hand, the firm that has decreasing revenues is performing poorly. The uneven increases and decreases is an indicator that the organization is being affected by the changes in the market (Lazăr, 2016). The revenue growth as a performance measure has been used by various researchers such as. For instance, Sam & Hoshino (2011) used the revenue measure to determine the performance of ICT firms in Asian countries. Other researchers that have used revenue growth as a performance measure include (Lazăr, 2016) and (Suntraruk, 2018).

The survival probability has also been used by the researchers to determine the performance of the firm. According to the survival analysis, performance is determined by corporate governance, financial structure and asset structure (Barbosa, 2016). A firm that has corporate governance problems, and poor asset and financial structure is likely to become insolvent in the future. However, even if the financial structure is appropriate, the failure can occur due to inappropriate asset structure (Barbosa, 2016). The probability of survival has been used for research purposes. Baumöhl et al (2019) analyzed the survival probability to determine the performance of the firm in the European. Another popular measure that is used to

measure the performance of a firm is competitive advantage. Competitive advantages are attributes that make the firm products superior to the competitor ones. For instance, in the Matatu industry, some of the competitive advantages include good safety record, charging reasonable prices, and roadworthy vehicles.

Concept of Dynamic capability

The concept of dynamic capabilities was proposed due to the desire to improve an organization's competitive advantages. The firms that operate in industries that are characterized by competition require continuous development of dynamic capabilities to maintain business continuity and competitive advantage. The businesses that successfully apply the dynamic capabilities approach reconfigure, integrate, recreate and renew resources and capabilities to keep in pace with the changes in the market place (Teece et al., 2016). The success in dynamic capabilities is determined by the management competencies at examining the environment and development of models that address the identified issues (Arend, 2012) therefore, it is not guaranteed that the firm that adopts dynamic capability will witness the improved performance.

According to Teece et al. (2016), dynamic capabilities fall into three. The first one is identifying, developing, co-development, and assessing the threats and opportunities in relation to the needs of the customers. The second one is resource mobilization to take advantage of opportunities and the third one is continuous renewal.

Although the dynamic capabilities must be in line with the strategic direction of the company, it can be separated from the formulation of strategy. The organization strategy that is coherent, consistent and flexible is just as crucial in assisting the firms to achieve a competitive advantage, just like dynamic capabilities (Teece et al., 2016). There is a relationship between managerial competence and the effective adoption and implementation of the dynamic capabilities approach. For the firms' dynamic capabilities to be effective, the managers must have the ability to analyze and guide the employees, and other stakeholders towards strengthening the dynamic capabilities approach. The organization's culture, values, and the ability to implement the new business model promptly are also crucial for dynamic capabilities (Darawong, 2018).

The decision by the executive determines how the firms develop, shapes and implements capabilities. When the management makes good decisions, the results are resources that are combined effectively that; and that enables the firm to achieve a competitive advantage. The firms face difficulties when distinguishing ordinary and dynamic capabilities (Teece et al., 2016) defines ordinary capabilities as capabilities that enable the production of static products or services. Ordinary capabilities are outsourced, hence the organization is not required to own or practice them, for instance, the manufacturing operations in many firms are outsourced; therefore owning them will not increase the competitive advantage. The firms benefit from the ordinary capabilities through efficient utilization of plant and assets, human resources, administrative systems and processes (Teece et al., 2016).

The efficient application of ordinary capabilities enables the organization to finish the set goals and tasks proficiently. However, according to Teece, the ordinary capabilities do not result in the growth of the firms; except for geographical growth because they are unable to help in responding creatively to change in market environmental conditions such as changes in technology. The firms that concentrate on ordinary capabilities is often defeated due to new inventions, for instance, Kodak had ordinary capabilities in the manufacture of films, but it was defeated by the invention and production of digital cameras. The ordinary capabilities are primarily demonstrated in operations and administrative processes. The operations units deals with service provision or delivery of goods, and the related supply management and planning and administration (Teece et al., 2016).

The dynamic capabilities enable the organization to achieve agility. Organizational agility is the ability of an entity to respond to changes (Khoshlahn and Ardabili, 2016) Small organizations can achieve agility in a better way than large firms because it is possible to obtain the feedback from the customers and partners promptly; hence enabling them to respond quickly to the changes. On the other hand, although large organizations have capabilities of obtaining the enormous amount of data from the market, they may be unable to respond quickly to the changes because of challenges in breaking the organization culture that is resistant to change (Appelbaum et al., 2017).

The dynamic capabilities enable the organization to achieve agility because it provides a framework that the managers should follow in pursuit of agility. For the

organization to achieve agility, it must sacrifice the technical competencies. Failure to sacrifice the technical competencies will result in failures to achieve organizational agility. Thus due to the costs associated with this tradeoff, the management needs to establish the ways to manage the risks by using various measures such as hedging (Teece et al., 2016).

Ethical leadership

Musyimi (2016) identifies four features of ethical leadership which include transparency, trust, moral values, and integrity. Transparency is the sharing of the information in a truthful and honest manner. Transparency is also displayed in the degree to which persons display clarity and openness towards tolerating opinions of others and sharing of the information and appreciating others in ways that empowers them. When an organization has ethical leaders, the organization will become transparent.

An organization that is transparent implies clear systems and procedures that enable access of the employee data for moral mindfulness, which facilitates the safeguarding of the resources. Trust is a belief or expectation that people rely on in the workplace (Blign, 2017). When the employees and leadership maintain a high level of trust, the positive exchange relationships are likely to develop. The leaders who maintain a high level of trust with the followers are likely to gain the support of the followers (Blign, 2017) thus trust facilitates the success of the organization. Moral values are the drives that guide the individuals 'demeanors, recognitions and

practices to accomplish particular objectives. Furthermore, moral values include the dedication to make the right choices that are acceptable by the cultural qualities and convictions and society.

Integrity is the individual attribute that is ethical, honest, transparent, considerate and compassionate (Duggar, 2009). The individuals with integrity do what is expected of them, and are reliable and predictable when dealing with others, and they also defend the things that are considered acceptable, just and fair. Integrity is the foundation of the Turknett Leadership Character Model; whereby without the integrity, the leader cannot be successful. According to Tucker, the leadership with integrity advocates and practices the right things without twisting facts, and also keeps the promises. According to Schnackenberg & Tomlinson (2016), the corporation that has transparent leadership outperforms the rivals in terms of profitability, stock price, profitability, job creation, and revenue growth.

Relationship between Dynamic capability and Performance

The current literature indicates that dynamic capability has an effect on the performance of the firm. A survey by Lee (2011) among the high-level managers in Taiwanese firms determined that dynamic capabilities enable the organizations to create value by manipulating resources; thus enabling the firms to achieve competitive advantage over the competitors. Deeds, Decarolis and Coombs (2000) researched the effects of dynamic capability on new product development among the 94 pharmaceutical firms. The authors established that dynamic capabilities such

as staff and management experience, and alliances contributed to the development of new products. Eisenhardt and Martin (2000) researched the effects of the dynamism effect and market volatility on the dynamic capabilities. Based on the empirical review, the authors concluded that the dynamic capability varies depending on the characteristics of the market. In the markets that are less dynamic, the capabilities are incorporated into the existing knowledge. In the markets that are more dynamic, the capabilities rely on the acquisition of new knowledge, depending on the condition. Also, in the high dynamic markets, the routines used to acquire the knowledge are partly unstructured; thus enhancing the acquisition of the knowledge. Furthermore, the structured routines are usually substituted with mindful and iterative routines to adapt to the fast flow of information (Eisenhardt & Martin, 2000).

Wang, Senaratne and Rafiq (2014) collected data from 113 UK high-tech small and medium-sized firms to establish the relationship between the dynamic capabilities and the performance; and the effects of success traps. The researchers established that the success traps have strong negative effects on the dynamic capability; which in turn have weak effects on the performance of the organizations. The authors further established that the development and application of dynamic capabilities are related to the internal factors; not the external influences.

Oliver (2014) used multi-method research to investigate whether the dynamic capabilities results in superior performance of the firms among the UK broadcasters. The researcher concluded that through the application of the concepts of the

dynamic capabilities, the broadcasters are able to reorganize and deal with the dynamic changes in the market; which results in the superior competitive advantage. Aminu and Mahmood (2015) determined that dynamic capabilities play important mediating roles in the relationship between the intellectual capital, and the performance of the firm.

Nedzinskas, et al (2013) researched on the impact of the dynamic capabilities among the 4531 Lithuanian companies and concluded that dynamic capabilities have a strong influence on the non-financial performance, but has no effect on the financial performance. The study also established that the organizational inertia plays a moderating role in the in the association between the dynamic capability and the performance of the firms.

Various studies have been conducted in Kenya to determine the relationship between dynamic capability and the performance of the firms. Mukhobe (2015) researched on the relationship between the dynamic capability and the performance of the shipping sector in Kenya, and concluded there was a strong relationship between the dynamic capability and the performance of the firm. Other researchers that have determined that dynamic capability improves the performance of the firm in Kenya are (Nyachanchu et al., 2017; Muteshi, et al., 2018). The reviewed studies indicate that there is a relationship between dynamic capability and the performance of the firm; therefore, the study tested the effects of dynamic capability on the performance of matatu Saccos.

Relationship between Ethical Leadership and Performance

One of the primary causes of business failure is unethical leadership practices that negatively impact the performance. When the business engages in unethical practices, it may lose customers due to decrease in trust. If the business loses trust due to ethical issues such as corruption, it may lead to loss of customers; hence reducing the revenues (Amisano & Anthony, 2017). Enron's is a widely used example of the firm that collapsed due to lack of ethical leadership. The leadership of Enron engaged in unethical leadership by acting for personal interest instead of stakeholders', abuse of the powers and privileges, and inconsistent treatment of external and internal constituencies (Ferrell et al., 2015). A review of financial scandals by Toms (2019) established that most scandals were caused by the unethical leaders who failed to abide by the established code of ethics. Due increased concerns that ethical leadership was one of the primary contributors to decreased performance and business failure, multiple studies have been conducted to determine the link between ethical leadership and performance.

Walumbwa et al (2011) researched the association between ethical leadership and performance of Chinese companies. The researchers established that ethical leadership has a significant positive impact on performance. The study also established that organizational loyalty, self-efficacy and leader-member exchange were the primary motivators of ethical leadership. Shin et al (2015) used cross-sectional research to study how ethical leadership impacts on procedural justice

climate. The researchers concluded that ethical leadership predicted the procedural justice and also improved the organization performance.

The study across two organization samples at different periods revealed that ethical leadership had a significant positive association on different employees' outcomes namely reduction in harmful behavior, organizational loyalty and performance (Thiel et al., 2018). The researchers also established that leader-member exchange (LMX) is what causes the ethical leadership to have a positive impact on the performance. According to Thiel et al (2018), LMX is the quality of relationship between the followers and the leaders. When LMX is high, the perception of trust on the follower increases; hence leading to enhanced focus to achieve the set organizational behavior.

Zhu et al. (2013) used study the moderation effects of ethical leadership on outcomes and antecedents of corporate social responsibility. The researcher collected data from 199 firms operating in South China tourism sector. The study concluded that ethical leadership caused the improved performance due to increase in firms' reputation. This research by Zhu indicates that ethical leadership may impact the firms' performance indirectly through other factors such as reputation and a good relationship between the leaders and the followers. Study among large multinational enterprises in South Korea indicated that managers who are perceived to have ethical values positively influenced the employees to abide by the established organizational ethical values which increased the work performance (Kang, 2019).

Integrated literature review of studies on Malaysian firms indicated that ethical leadership improve workplace climate and causes the customers to have a positive attitude on organizations operating both in public and private sector; which in turn improves performance (Khademfar & Amiri, 2011). The reviewed studies indicated that ethical leadership resulted in improved performance in various domains such as staff performance, revenues and profitability and employee engagement.

2.4 Summary of review of literature and research gaps

Table 2.1

Summary of the review of literature and research gaps

Researcher	The focus of the research	Findings	Research gap
Lee (2011)	Dynamic capabilities of service alliance firms	The organization creates value by manipulating resources; therefore enabling firms to achieve competitive advantage.	The research failed to investigate the role of ethical leadership on the relationship between the dynamic capability and the performance of the firms.
Wang, Senaratne & Rafiq (2014)	The relationship between the dynamic capabilities and the performance; and the effects of success traps	The success traps have strong negative effects on the dynamic capability; which in turn have weak effects on the performance of the organizations	The research did not investigate the moderating effect of ethical leadership on the relationship between dynamic capability and performance.

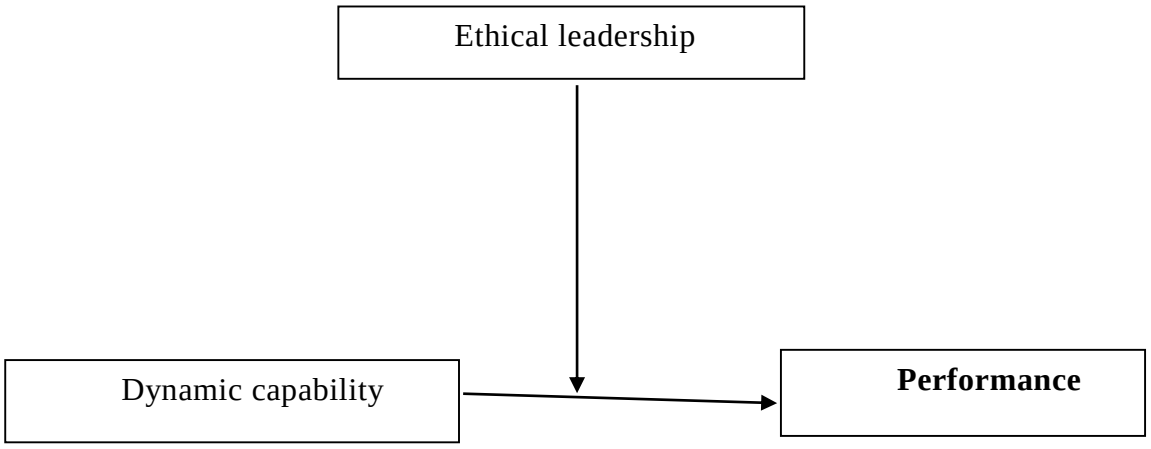
The other reviewed studies also have failed to establish the role of ethical leadership on the relationship between the dynamic capability and the performance of the firm.

2.5 Conceptual framework

Conceptual framework represents the connections among different variables of the study. Figure 2.4 indicates the conceptual model of the study namely independent variables, dependent variables and the moderating variables. In this study, the dynamic capabilities were independent variable, performance is dependent variable while ethical leadership is moderating variable.

Figure 2.1

Conceptual framework

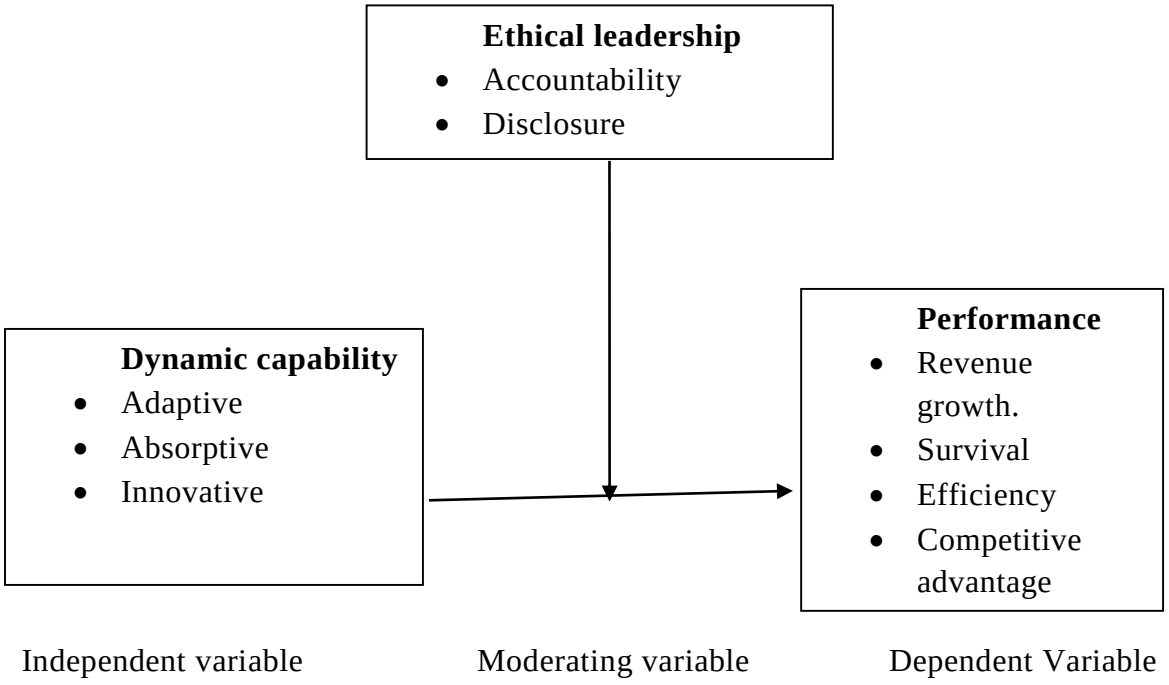


2.6: Operational Framework

The review of literature covered four primary topics namely dynamic capabilities, ethical leadership and firms' performance. Based on these factors, figure 2.2 shows the operational framework that was used in the study.

Figure 2.2

Operational framework



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the methodology that was used by the researcher. In particular, the section discusses study design, the population of the study, sample and sampling procedure, data collection procedures, validity and reliability of the research instruments and data analysis

3.2 Research design

The study used descriptive cross-sectional survey. Descriptive cross-sectional survey design captures the data at a specific point in time (Hair, 2016). Furthermore, the cross-sectional survey is suitable for establishing the relationship between the variables being studied at a particular time (Bell et al., 2019). The cross-sectional research design was appropriate because the information on the participants was collected to determine what is going on at a particular period. Also, this research design enables the researcher to describe various aspects of the phenomena of interest (Goddard and Melville, 2011) hence it facilitated establishing the effects of dynamic capabilities on the performance and also the moderating role of ethical leadership. The cross-sectional design was also suitable because it has been used by other researchers such as (Mwazambo, 2016; Nyachanchu et al., 2017 and Darawong, 2018) to study on firm's dynamic capabilities. Additionally, the cross-sectional design allowed utilization of descriptive statistics such as percentages and frequencies.

3.3 Target population

The target population was Matatu Saccos operating in Meru town. According to Sub County Co-operative office in Meru there are 36 Matatu Saccos operating in Meru region. For the purpose of this study, only the Saccos that had consistently complied with the Saccos regulations were considered. According to the Sub County Cooperative office in Meru, there are 8 Matatu Saccos operating in Meru County that have consistently complied with Sacco regulations.

Table 3.2

Matatu Saccos that have complied with Sacco regulations

Name of the Sacco	No. of Committee members
Meru Nissan Sacco	9
Menya Sacco	9
Menamy Sacco	7
Nyamena Sacco	7
Meru – Mekina Sacco	7
Diligence Sacco	5
Digital Sacco	5
Kibantu Sacco	5
Total	**54**

Source: Sub County Cooperative office, Imenti North Sub County, 2019

Choosing the matatu Saccos that had complied with the Sacco registration guidelines was appropriate because facilitated the collection of data due to easier access to the registered offices. The researcher targeted the committee members of the 8 Saccos. Selection of the board members for the study was justified because they were easily accessible. The employees were excluded in this study because they are distributed across multiple areas of operations; thus they were not easily accessible. Furthermore, most of the employees are clerical staff and others work on contract and they were not able to provide the necessary information required for the study as they were not involved in management of the Saccos.

3.4 Sample and sampling technique

The census was used because the population size is small and easily accessible. Thus, every member of the board of the 8 Saccos was selected; giving a total of 54 respondents. The selection of all members of board was appropriate because the approach eliminated the selection bias. There may be conflict between the different committee of the board; therefore, choosing all the board members reduced the possibility of biased responses. Another reason for targeting the board members is that they were familiar with the ethical leadership concepts and the firms' capabilities.

3.5 Data collection instruments

The study used primary data. The questionnaires were used for the collection of primary data. The use of the questionnaires was appropriate because the method enabled large amounts of data to be obtained in a short period. The first part of the

questionnaire collected data on participant demographics. The second part collected data on dynamic capability; third part on performance; and the fourth part on ethical leadership.

3.6 Data collection procedures

The researcher administered the questionnaires using pick and drop. The researcher dropped the questionnaires to the respondents' offices, and then picked them after 4 weeks. The introduction letter was used show the purpose of the study and to assure the respondents of the confidentiality of the information.

3.7 Measurement of the Variables

Table 3.3

Measurement of Variables

Variable	Dimensions	Indicators	Source	Measure	Item number
Dynamic capability	Adaptive capability	Identifying and adapting to market opportunities.	Liu, (2016).	5 Point Likert Scale	22
	Absorptive capability	Recognizing the emerging external information, assimilate, and apply it to gain a competitive advantage			
	Innovative capability	Ability to create new products and strategic orientation with advanced actions and methods			
Firm's performance	Revenue growth	Steady growth in revenues.	Lazăr, (2016) ; Suntraruk, (2018		26
	Sacco survival	Reaction to the market forces, strength and level of conflicts.	Baumöhl, Iwasaki & Kočenda, (2019)		
	Sacco efficiency	Savings, rate of goal attainment and the use of innovative solutions.	Carvalho, Syguiy Silva, (2015); Roberts & Thum, (2005		
	Competitive advantage	Superiority of the services when compared to the competitors.	Teeratansirikool, Siengthai, Badir & Charoenngam, (2013)		
Ethical leadership	Compliance with ethical standards and	Using acceptable ethical standards	Brown, Treviño, & Harrison, (2005).	5 Point Likert type Scale rating Interval	17

3.8 Validity of the research instrument

Content validity according to Goddard and Melville (2011), is the extent to which the instrument items sufficiently represent the domain contents. The content validity of the questionnaires was determined by the provision of detailed questions on dynamic capability, firm performance and ethical leadership. Content validity of the instruments was also determined through expert reviews from the university supervisors and other external experts. The corrections and commentary assisted in the validation of the research instruments. Furthermore, the response of the respondents was checked against the study objectives.

3.9 Pilot Study

Pilot study is a small scale study conducted before the actual research to assess the data collection instruments, recruitment strategies and other research protocols (Hassan et al., 2006). After the pilot study, the research should test the reliability and validity of the research instruments and validity of the study (Mokrzycki, 2013). Hassan et al. (2006) and Mokrzycki (2013) recommends that the pilot study should be conducted using the population that is different from the study population to prevent bias that may be caused by the experience gained during the pilot study. Therefore, for the purposes of pilot study, the study used 5 board members from a different Sacco from those that comprised the ones selected from the study. 5 members represented 10 percent of the actual sample size as recommended by (Connelley, 2016). The issues addressed by the pilot study included; the ability of the comprehend questions and cover letter, and understanding the sequence of the

questions and terms used (Mokrzycki, 2013). All the respondents answered the questions according to the instructions. Some of the issues identified and rectified during the pilot study included ticking more than one box and inability to understand some of the questions. The questions were reformatted to overcome this problem.

3.9 Reliability of research instrument

The Cronbach alpha of every construct was analyzed. The analysis indicated that dynamic capability was the most reliable with the alpha value of 0.899, followed by performance with the value of 0.822 and ethical leadership with the value of 0.708. According to George and Mallery (2011), the alpha values of $0.8 > \alpha \geq 0.7$; hence the overall reliability of the instrument was acceptable. The alpha of the three items was within the threshold of 0.8-0.7; hence they were acceptable.

Table 3.4

Reliability tests analysis

	Cronbach's Alpha
Dynamic capability	0.899
Performance	0.822
Ethical leadership	0.708
All items	0.795

3.10 Data analysis and presentation

After the collection of data, it was edited to identify consistency, errors, and omissions. After editing, data was coded and keyed in SPSS for analysis. The SPSS was appropriate because it enabled the use of descriptive and inferential statistics. The descriptive statistics groups data in frequencies, percentage, and means, while inferential statistics using regression analysis enabled the testing of hypothesis.

3.11 Study Location

The study was conducted in Meru County. Meru regions was chosen for this study because there are many matatu Saccos operating in the region; hence was possible to obtain a representative sample. Additionally, the data collection was easier because most of the registered offices of the matatu Saccos are located in Meru town

3.12: Test of Regression Assumption

Normality is one of the primary assumptions of the regression analysis because abnormally distributed data results into distorted relationships (Gordon, 2012). Due to this normality issue, Shapiro-wilk test, Kurtosis and Q-Q plots were used for normality test. The regression model also assumes that there is no multicollinearity; that is the variables are not highly correlated with each other. Variance Inflation Factor (VIF) and tolerance levels were used test multicollinearity. VIF should be less than 10, while the acceptable tolerance levels should be greater than 0.1(Gordon, 2012). The data was also checked to ensure that there were no outliers.

3.13 Moderated Regression Model

$Y = \beta_0 + \beta_1 X_1 + \beta_2 W_2 + \beta_3 WX + e$

Y=Performance

X=Dynamic capability.

W=Ethical leadership

WX=Interaction effect.

β_0=Constant.

β_1 , β_2, β_3,=Coefficients .

e =error.

3.14: Ethical Considerations

This information from the research was used for academic purposes only. The research abided by APA ethical principles of voluntary participation, confidentiality and privacy of participants and informed consent. The respondents gave information voluntarily as no force or coercion was used. To maintain confidentiality of the respondents, the respondents were not required to indicate their names in the questionnaires. The researcher obtained informed consent from the respondents, and sought permission from relevant bodies. Before commencing data collection, the researcher obtained permission from the selected matatu Saccos and a research permit from National Commission for Science, Technology and Innovation (NACOSTI). Introduction letter was used to inform the respondents the purpose of

the research and to assure them of confidentiality. The researcher did not falsify processes, research materials, results or data.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

This section presents the results of the study as per the respondents' feedback. The presented results are grouped according to the objectives of the study. Demographic information is presented to show the demographic characteristics of the respondent, followed by results on dynamic capabilities, performance, competitive advantage, and moderating effects of ethical leadership.

4.1 Response rates

Out of 54 participants, only 42 agreed to participate in the study. The questionnaires were administered to these 42 subjects, which gives a response rate of 78 percent, which was deemed suitable for statistical analysis.

Table 4.1

Response rates

		Response rate
Responded	42	78%
No response	12	22%
Total	**54**	**100**

4.2: Demographic information

The questionnaires included a section for collecting participants' demographic information. The demographic questionnaire collected information on gender, education level, work experience, and employment position.

Gender

Table 4.2

Respondents gender

	N	Percentage
Male	34	81%
Female	8	19%
Total	**42**	**100**

Male constituted 34 (81%) respondents, while females were 8 (19%. This information indicates that most of the management committee members of Matatu Saccos are men.

Level of education

The study collected data on the respondents' level of education. The findings are presented in Table 4.3.

Table 4.3

Education Level

	N	**Percentage**
Postgraduate	3	7%
Graduate	8	19%
Undergraduate	13	31%
Diploma	13	31%
Professional qualification	5	12%
Total	**42**	**100%**

Most of respondents had a college diploma (31 percent) and undergraduate degree (31 percent), followed by graduate (19 percent), professional qualification (12 percent), and postgraduate (7 percent). These statistics indicate that respondents could understand the questions asked and provide a reliable answer.

Work Experience

The researcher asked the respondents about their work experience in the management committee. This information was required to determine how often the committee members are reelected. A majority (36 percent) had less than one-year experience, followed by 1-2 years (29 percent), above 4 years (19 percent) and 3-4 years (17percent). This information implies that during the AGMs, the Sacco members prefer electing new committee members to replace the retirees. Sacco Societies Act requires the board members to serve for three years after which they are eligible for re-election. These statistics indicate that most of the committee members chose to retire after 3 years or are not re-elected.

Table 4.4

Work Experience

	N	Percentage
Less than 1 year	15	36%
1-2 years	12	29%
3-4 years	7	17%
Above 4 years	8	19%
Total	**42**	**100%**

Management committee

The questionnaires sought to establish the management committee that the respondents belonged to. 38 percent of the members belonged to the finance committee, 26 percent to the supervisory committee, 19 percent to the education committee, and 17 percent to the management committee. The supervisory committee formed a significant portion of respondents; which indicated that the results were not biased because they act independently of other board members, and do not regularly participate in board meetings.

Table 4.5

Management committee

Committee	N	Percentage
Finance	16	38%
Education	8	19%
Credit	7	17%
Supervisory	11	26%
Total	42	100%

4.3 Diagnostic tests

Normality tests

Shapiro-Wilk test, Kurtosis and Q-Q plots were undertaken to assess the normality of data distribution. Shapiro-Wilk test is used to illustrate the normality for <50 samples, but is also suitable for >50 samples (Bell et al., 2019); therefore, it was suitable for the test of normality in thus study. The results of Shapiro-Wilk test are illustrated in table 4.6. The p values for all the variables is greater than 0.05; hence all the variables in the data had a normal distribution.

Table 4.6

Normality tests

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Dynamic capability	.094	41	.200*	.974	41	.604
Performance	.129	41	.189	.949	41	.136
Ethical leadership	.103	41	.200*	.961	41	.294

Skewness and Kurtosis were also used to assess the normality of data. The results are indicated in table 4.7. If the values of for skewness or kurtosis fall in the range of between − 2 and + 2, then then the distribution is not outside the normality range(Schmider et al., 2010 & Kim, 2013) .The analysis in table indicates that the ranges are within the acceptable range; hence the data is within the normal distribution.

Table 4.7

Skewness and Kurtosis

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Dynamic capability	42	.200	.393	-.160	.768
Performance	42	.299	.378	1.190	.741
Ethical leadership	42	-.507	.378	.824	.741
Valid N (listwise)	42				

Although the p values have indicated that the data is normally distributed, they should not be used alone. Other sources such as such as graphical means should be used to confirm or refute the claims. The study used Normal Q-Q plots for further analysis on the normality of data for the three variables. If the data is normally distributed, the points will be close or on the line (Ghasemi & Zahediasl, 2012). Figure 4.1, figure 4.2 and figure 4.3 shows that most of the points are close to the line; hence the Q-Q plot confirms that the data is normally distributed.

Figure 4:1

Q-Q plot of Dynamic capability

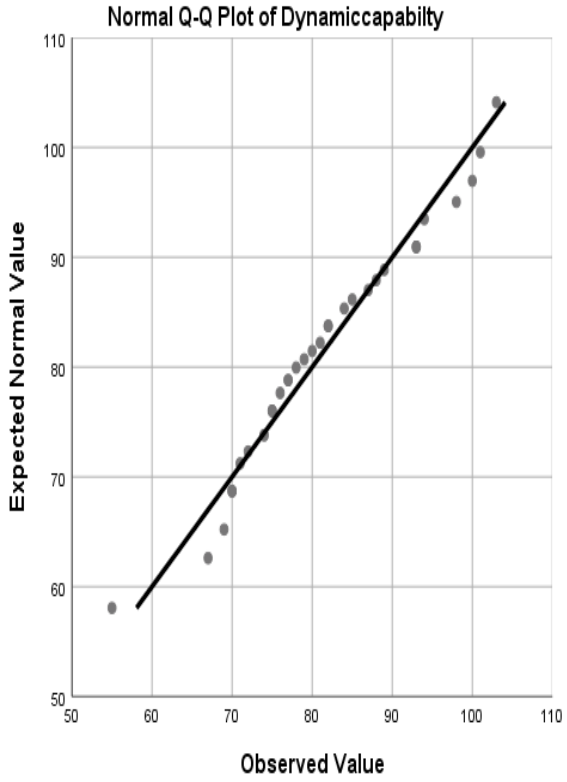


Figure 4.2

Q-Q plot for Performance

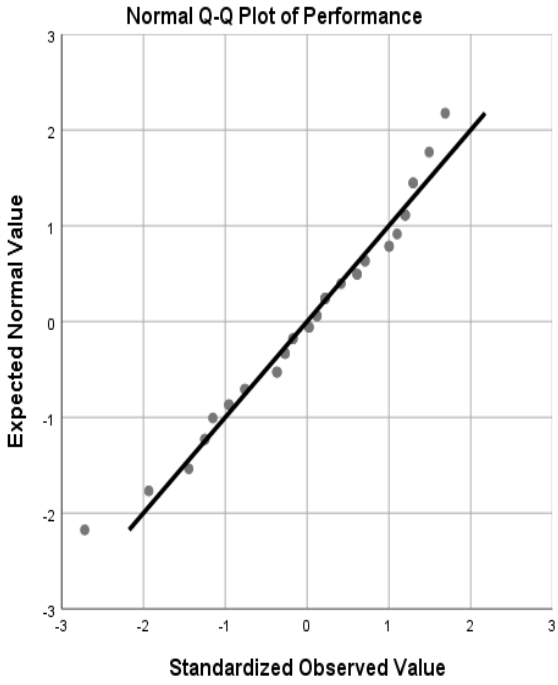
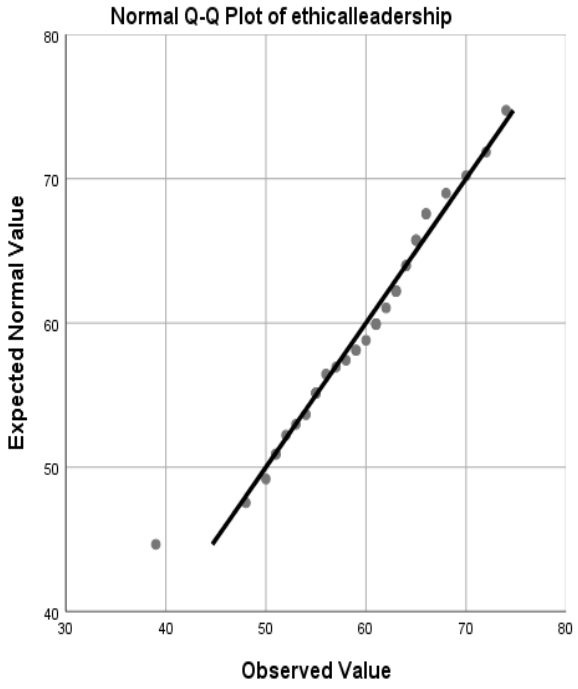


Figure 4.3

Q-Q plot for ethical leadership



Multicollinearity tests

Variance inflation factor was used to assess multicollinearity of the variables. VIF should be less than 10, while the acceptable tolerance levels should be greater than 0.1(Gordon, 2012). As indicated in table 4.8, there was no problem of multicollinearity that could have affected the testing of relationship between dynamic capability and the dependent variables.

Table 4.8

Multicollinearity test

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	65.192	21.830		2.986	.005		
Performance	.045	.167	.042	.267	.791	.999	1.001
Ethical leadership	.180	.248	.116	.727	.471	.999	1.001

Autocorrelation test

The presence of correlation within a regression models may be an indicator that the model is not valid due to underestimation of the standard error. Durbin Watson was used to look for serial correlation. According to Ghasemi and Zahediasl (2012), the method tests the values between 0 and 4. The value of 0<2 indicates the presence of positive autocorrelation, <2 to 4 negative correlation, while the value of 2 shows absence of autocorrelation. The values between 1.5 to 2.5 are considered normal. Table 4.9 shows that the autocorrelation was within the acceptable range; hence there were no first order autocorrelation.

Table 4.9

Durbin Watson Test

Model	Durbin-Watson
1	1.903

4.4 Dynamic capabilities

The researcher asked the respondents on their levels of agreement with various statements related to dynamic capabilities. Specially, three types of dynamic capabilities namely adaptive capabilities, absorptive capabilities and innovative capabilities were assessed. The results are indicated in table 4.10 .

Table 4.10

Means and standard deviation of Adaptive capability

	N	Mean	Std. Deviation
Adaptive capability			
The rate of adapting to the changes in the business environment is high	42	4.3333	.75439
The changes in the operating environment are regularly reviewed.	42	4.4048	.70051
The operating capabilities are regularly reviewed to comply with changes	42	3.6429	.93238
The organizational resources are focused on the fulfillment of changing customer preferences.	42	4.6190	.53885
There is a feedback mechanism to assess the satisfaction of the clients.	42	3.3659	.99388
The board members regularly attend the forums to learn about changing trends in the public transport sector	42	3.857	1.0493
The employees regularly attend the forums to learn about changing trends in the public transport sector	42	3.0000	1.30664
Grand mean		3.8890	

Table 4.11

Means and standard deviation of Absorptive Capability

Absorptive capability	N	Mean	Std. Deviation
The knowledge gathered from the external sources is integrated into Sacco's strategies.	42	4.0238	1.04737
The externally sourced capabilities are combined with the existing capabilities.	42	3.3571	1.28446
There are mechanisms and processes to assimilate the new knowledge in the organization processes and strategies	42	4.1905	.99359
The board uses the information gathered to plan to implement new management approaches that suit the business processes.	42	3.3333	1.14053
The Sacco transforms the information gathered to new capabilities such as offering new services.	42	4.2195	.85183
There are activation triggers that assist in the movement of knowledge gathered across the Sacco.	42	3.0714	1.09082
There are strategies to maximize utilization of the knowledge gathered than our competitors.	42	4.0000	.98773
Grand mean		3.7422	

Table 4.12

Means and Standard Deviation of Innovative Capability

	N	Mean	Std. Deviation
The Sacco utilizes modern technologies to enhance the processes.	42	4.6341	.53647
The implemented solutions to the problems are customer centered.	42	2.8333	1.44689
There is a budgetary allocation for research and development.	42	3.8571	1.18056
The Sacco has high success in new service innovations.	42	3.5750	1.05945
The Sacco invests on the systems that have long-term benefits.	42	4.4250	.67511
It is possible to forecast the demand for transport services accurately.	42	4.1667	.76243
The Sacco monitors new technological advancements.	42	4.6341	.53647
Grand mean		**4.0179**	

The findings on adaptive capabilities indicate that most of the Saccos are quick to adapt to the changes (*M*=4.33, *SD*=0.75). Also, Saccos regularly review the changes in external operating environment (*M*=4.40, *SD*=0.70). The operating conditions are also regularly reviewed to ensure that the organizations adapts to the identified changes effectively (*M*=3.64, *SD*=0.93). Furthermore, the respondents agreed that the resources are focused on fulfillment of changing customer preferences (*M*=4.62, *SD*=0.54). The members of the board also attend the forums to learn about changing trends in the public transport sector (*M*=3.86, *SD*=1.05). There is a feedback mechanism to assess the satisfaction of the clients (*M*=3.67, *SD*=0.99). However, the practice of the employees regularly attending the forums to learn about changing trends in the public transport sector has been poorly adapted (*M*=3.0, *SD*=1.31). Adaptive capabilities is the ability of the firm to identify and capitalize new market opportunities (Sáez, López, et., al 2013). The grand mean of adaptive capabilities was 3.89 which indicates that the Saccos are able identify and capitalize on new market opportunities. The firms that have adaptive capabilities are able to shifting the business practices; hence enabling quick responses to changes (Gibson& Birkinshaw, 2004) hence the Saccos adaptive practices sense, prepare and adapt to environmental changes. The findings are in agreement with the existing literature (Khoshlahn & Ardabili, 2016; Teece et al., 2016) that for the organization to be able to cope with the dynamic environmental changes, it must possess adaptive capabilities that enable it senses, analyze and prepare for the strategies to cope with changes .

On the questions on absorptive capabilities, the respondents agreed that knowledge gathered from the external sources is integrated into Sacco's strategies(*M*=4.02, *SD*=1.05), the existence of the processes and mechanism to assimilate the new knowledge in the organization processes and strategies(*M*=4.19, *SD*=0.99), transformation of the information gathered to new capabilities such as offering new services(*M*=4.22, *SD*=0.85) and existence of strategies to maximize utilization of the knowledge gathered than our competitors(*M*=4.00, *SD*=0.99). The practice of combining the external and existing capabilities(*M*=3.56, *SD*=1.28), use of information gathered to plan to implement new management approaches that suit the business processes(*M*=3.33, *SD*=1.14) and the existence of activation triggers that assist in the movement of knowledge gathered across the Sacco(*M*=3.07, *SD*=1.09) have been adopted moderately. The grand mean for absorptive capabilities was 3.74; an indication that the Saccos are able to recognize the emerging external information, assimilates, and applies it to increase competiveness. These findings are in line with Medase & Barasa (2019) and Teece et al. (2016) assertion that adaptive capabilities enables the organization to use the external information to gain competitive advantage.

The respondents were also asked the question regarding innovative capabilities. An innovative capability is firm's ability to create new products through strategic orientation with advanced actions and methods (Wang & Ahmed, 2004). The respondents agreed that Saccos utilizes technology in enhancing processes (*M*=4.63, *SD*=0.54), invests on the systems that have long-term benefits (*M*=4.42, S*D*=0.68),

have possibility of forecasting demand for transport services accurately (*M*=4.16, *SD*=0.76), and monitors new technology advancements (*M*=4.63, *SD*=0.54).

The practices of budgetary allocation for research and development (*M*=3.87 *SD*=1.18), and high success rates for new innovations (*M*=3.56, *SD*=1.06) were not well practiced by the Saccos .The participants viewed that the implementation of solutions were only moderately customer oriented (*M=2.83*, *SD=1.45*). Based on the respondent responses, the practice Sacco's appreciation and adoption of new inventions and solutions was visible. The responses agree with the findings of Okwach (2017) who established that the Saccos are investing heavily in establishing innovations to increase their innovative capabilities.

4.5 Performance

In this section of the questionnaire, the respondents were asked to indicate the level of agreements with various statements regarding the Saccos performance. Specifically, the participant were asked to rate various aspects of performance per scale of 1-5. 5- Very great extent, 4 great extent, 3 moderate extent, 2 low extent and 1 none.

Table 4.13

Means and standard deviation of revenue growth

	N	Mean	Std. Deviation
Revenue Growth			
The revenue turnover is increasing	42	4.5000	.77302
The increase in the number of the customers relative to the competitor is high	42	3.5238	.89000
The extent at which the firm reaches the revenue targets is high	42	4.5476	.63255
The level of the shareholders' satisfaction with the growth is satisfactory	42	3.4048	.88509
There is growth relative to the market leaders.	42	3.6429	1.18572
The interest on members deposit is increasing	42	2.7381	1.19060
The rate dividends is increasing	42	3.8571	1.07230
There is increase on loan to members.	42	3.1429	1.15972
The member deposits are growing at a steady rate.	42	3.8333	1.05730
Grand mean		3.6878	

Table 4.14

Means and Standard Deviation of Sacco Survival

Survival			
The Sacco has financial strategy to deal with environmental changes.	42	3.0952	1.16472
The Sacco is venturing in market penetration and expansion strategies.	41	4.0244	.96145
The firm has resources with the main competitors.	42	2.8571	1.11686
There rate of conflicts with regulators is low.	42	3.8810	1.13056
There are few customer complaints.	42	4.0000	.79633
There has been an increase in the number of members over the past three years.	42	4.4048	.76699
Grand mean		3.7104	

Table 4.15

Mean and Standard Deviation of efficiency and competitive advantage

Efficiency	**N**	**Mean**	**Std. Deviation**
The extent of savings due to better process organization is high	42	2.73810	1.105629
The processes are efficient.	42	3.5952	1.06059
There is a problem of non-achievement of the targets due to poor process.	41	3.2439	.96903
The revenue is increasing due to the utilization of innovative solutions.	42	4.1667	.85302
Grand mean		3.4360	
Competitive advantage			
The Sacco produces excellent services that are better than those of competitors.	42	4.1190	.94230
The reliability of Sacco services among the clients is satisfactory.	41	4.3415	.82492
The Sacco regularly receive warnings by the regulator.	42	3.1905	.94322
The rate of accidents among the Sacco's Matatus is high.	42	4.5000	.55216
The customer parcels are delivered within the specified time.	42	3.0714	1.09082
The Sacco has brand advantage over the rivals.	42	3.8333	.82393
The Sacco operational areas have competitive advantage	41	2.3415	1.21675
The customers are satisfied by the Saccos services than the competitors' ones.	42	3.9762	.97501
Grand mean		3.3617	

The respondents were asked about the Saccos revenues. Most of them agreed that the Saccos; revenues are increasing (*M*=4.50, *SD*=0.77) and that they reach the set targets (*M*=4.54, *SD*=0.63). Furthermore, the respondents agreed that there is moderate increase in the number of customers relative to the competitors (*M*=3.52, *SD*=0.89), moderate growth relative to the market leaders (*M*=3.64, *SD*=1.19) and moderate increase in dividends (*M*=3.83, *SD*=1.06). The level of stakeholders satisfaction (*M*=3.40, *SD* 0.89), the increase in member deposits (*M*=2.74, *SD*=1.19), and loan to members (*M*=3.14, *SD*=1.16).The grand mean for revenue growth was 3.69 which implies that matatu Saccos revenues are increasing.

Another elements of performance that was assessed is Sacco's survival. The results indicate that the Saccos were greatly considering market penetration and expansion strategies (*M*=4.02, *SD*=0.96), few customer complaints (M=4.00, SD=0.80), few conflicts with regulators (*M*=3.89, *SD*=1.13), and the increase in the number of members over the last three years (M=4.40, SD=0.77). The use of financial strategy to deal with the environmental changes was not adequately embraced (*M*=3.01, *SD*=1.16). The availability of financial resources to deal with major competitors was low (*M*=2.86, *SD*=1.12). The grand mean for survival was 3.71; an indication that the Saccos have strategies for long-term growth and competiveness.

The researcher also asked the respondents about the Sacco efficiency. The results shows that Saccos processes are efficient (*M*=3.60, *SD*=1.06) and innovative solutions leads to increase in the revenues (*M*=4.17, *SD*=0.85). However, the extent of saving due to utilization of better process was moderate (*M*=2.74, *SD*=1.11). The

non-achievement of targets due to poor processes was moderate (*M*=3.24, *SD*=0.85). The grand mean for efficiency was 3.44 which indicates that the practice of better utilization of organization resources have not been adequately adopted.

Competitive advantage as a measure of Sacco performance was also assessed by the researcher. The descriptive analysis indicates that the respondents felt that their organization had better services that the competitors (*M*=4.12, *SD*=0.94), reliable services (*M*=4.34, SD=0.82), low rates of accidents (*M*=4.50, *SD*=0.55) , high level of satisfaction among the clients with the services offered (*M*=3.98, *SD*=0.82) and brand advantage over the rivals (*M*=3.83, *SD*=0.82) The results also indicates that the Saccos receives regular warning from the regulators at the moderate extent (*M*=3.12, *SD*=0.94). The practice of delivering customer parcels on time has not adequately embraced (*M*=3.01, *SD*=1.11). Also, the respondents felt that Sacco operational areas do not give them competitive advantage (*M*=2.34, *SD*=SD=0.97). The results also indicate that the competitive competency among the Saccos varies; which signifies that the completive advantage depends on the strategies adopted. The grand mean of competitive advantage (3.36) shows that Saccos competitive advantages are limited; hence they may lose these advantages to the rivals.

4.6 Ethical leadership

Table 4.16

Mean and Standard deviation of ethical leadership

	N	Mean	Std. Deviation
The board insists on accountability when relaying financial information to the investors.	42	4.2857	.70834
The board members are always vetted	42	4.5952	.49680
There communication of ethical matters to the employees.	42	3.4286	1.06251
The financial information is disclosed to the investors	41	4.4390	.70883
The Sacco engages in corporate social responsibility	42	3.3571	1.18572
The leaders set good examples to the staff	42	3.9048	.95788
The board members uphold equity and fairness in the performance of their duties	42	3.0000	1.41421
The employees are involved in decision making	42	3.7143	1.13236
The board members portrays themselves as good role models	42	3.1429	1.35379
The leaders complement the employees' compliance with the code of ethics.	42	3.3571	.72655
The board members makes the employees proud	41	4.6098	.54213
The concerns for the employees and the shareholders needs are always addressed.	41	2.9512	1.02350
The Sacco members are involved in the making of policies	41	4.0976	.99511
The employees are confident with the board members running of Sacco affairs.	41	2.8780	1.18733
The members of the board use their power for the overall benefit of the Sacco	42	3.6429	1.24590
The board uses the laws, policies and ethical standards to solve the conflicts.	41	4.2195	.79095
Grand mean		3.7265	

The results indicate that the Saccos have embraced the practice of accountability when communicating the financial matters to the employees (*M*=4.29, *SD*=0.71). This information indicates that the Saccos comply with the ethical financial reporting standards. The practice of vetting the board members have also been adopted (*M*=4.60, *SD*=0.50) at very great extent. This may indicate the Saccos are complying with government regulations such as requiring the board members to declare their wealth. The results further indicate that the board members always make the employees proud (*M*=4.61, *SD*=0.54), set good example to the staff (*M*=3.91, *SD*=0.96), engage the employees in decision making (M=3.71, SD=1.13) and use their power for the overall benefit of the Sacco (M=3.64, SD=1.25). The practices of communication of ethical matters to the employees (*M*=3.43, *SD*=1.06), corporate social responsibility (*M*=3.36, *SD*=1.19), upholding equity and fairness in the performance of their duties (*M*=3.00, SD=1.41) and complementing the employees' compliance with the code of ethics (*M*=3.36, *SD*=0.73) have been moderately embraced. The board members have not embraced the practice of portraying themselves as good role models to the staff (*M*=3.14, *SD*=1.35). Also the routine of addressing concerns for the employees and the shareholders needs have not been embraced (*M*=3.00, *SD*=1.02).

4.8 Regression analysis

Regression analysis is used to assess the average relationship between the variables. Regression analysis was carried out for all the objectives of the study. The study sough to establish the role of ethical leadership on the relationship between dynamic

capability and performance of Matatu Saccos. The regression analysis was performed for all the study variables.

H_{01} There is no statistically significant relationship between dynamic capability and performance of matatu Saccos in Meru County

The first objective of the study was to establish whether there is statistically significant relationship between dynamic capability and the performance of matatu Saccos in Meru County. The study assessed three types of dynamic capabilities namely adaptive capability, absorptive capability and innovative capability.

Table 4.17

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.599[a]	.359	.309	.445

a. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability

R square value of 0.359 indicates that 35.9 percent of variations in performance in matatu sector could be explained by dynamic capabilities in the matatu Saccos; leaving 64.1 percent unexplained.

Table 4.18

Result of ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.319	3	1.440	7.265	.001[b]
	Residual	7.728	38	.198		
	Total	12.047	41			

a. Dependent Variable: performance

b. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability

Table 4.18 shows F (1, 2) =7.27, $p<0.05$ which indicates that the model was highly significant in determining how adaptive capability, absorptive capability and innovative capability affect the performance of Saccos.

Table 4.19

Regression model coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.049	.501		6.090	.000
	Adaptive capability	.200	.097	.280	2.065	.046
	Absorptive capability	.291	.067	.568	4.368	.000
	Innovative capability	-.111	.079	-.192	-1.405	.168

a. Dependent Variable: performance

Table 4.19 shows the coefficient of three types of dynamic capabilities used for the construction of regression model. The results indicates that adaptive capability ($p>0.05$) had no statistically significant relationship to the performance of matatu Saccos. Therefore, the null hypothesis that there is no statistically significant relationship between adaptive capability and the performance of matatu Saccos is accepted ($p>0.05$). This finding rejects the previous finding by (Wang, Senaratne and Rafiq 2014; Biedenbach and Müller, 2012; Sáez, López, et al. 2013) that adaptive capability is associated with improved performance of the organizations.

There are various possible explanations of this finding despite the large amount of empirical and theoretical literature that indicates that adaptive capability leads to increased performance. One of the possible explanation is this finding is that Saccos are unable to create new organizational structures , change the organizational culture and reorganize the teams to ensure that the adaptive technologies are focused on performance improvement . Another possible explanation is the lack of resources to support activities, reorganize the activities such as organizational structure to support initiatives such as technological systems that can reduce the wastage of resources. This assertion is supported by Kaur and Mehta (2017) who suggested that the success in adaptive capabilities may depend on the firm's financial resources. Also, the disagreement with the literature may be caused by the context of organizations that were used to test hypothesis. Majority of the Saccos operate in Meru and neighboring regions; hence they lack relevant knowledge to integrate the identified environmental opportunities into performance strategy.

The absorptive capability ($p<0.05$) had a significant influence on the performance of matatu Saccos .The beta value of absorptive capacity was 0.568, which indicates that a unit change in absorptive capability would lead to 0.568 change in matatu saccos performance. The results confirms that there is a positive relationship between that absorptive capability and the performance of matatu Saccos ($p<0.05$); hence we fail to accept the null hypothesis. This finding is in agreement with the findings of (Lane et al. 2001; Eisenhardt and Martin, 2000) who established that absorptive capability leads to enhanced performance. One possible explanation for positive relationship between absorptive capability and the performance is that Saccos regularly hold inter-organizational meetings and conferences to discuss the issues facing the sector. During these meetings, the members of the board and the employees exchange information; which is later used to make strategies to improve performance.

Another explanation could be that the individual Saccos' employees and board of directors have the knowledge required to incorporate and evaluate external; knowledge to make strategies. This argument is supported by the Schweisfurth and Raasch (2018) who established that established that individual knowledge of employee to use and absorb external knowledge can result in enhanced firms' performance. Another explanation would the availability of incentives to properly diagnose and use new knowledge due to the associated benefits such as increase in competitiveness.

The null hypothesis that there is no statistically significant relationship between the innovative capability and performance of matatu Saccos is also confirmed ($p>0.05$). The beta value of -0.192 indicates that that for every one increase in innovative capability, the Saccos performance decreases by 19.2% percent. The results also disagrees with the literature by numerous scholars such as Mutai (2017) and Wang & Ahmed (2004) associating innovative capability with the increased organizational performance. The possible explanation of this finding is that the increased investment in new technologies such as systems and new models causes the Saccos to incur huge costs that reduce the profitability. Another explanation can stem from Aas and Breunig (2017) argument that organization can only benefit from the innovative capability only if it utilizes its social and human capital to develop new services and process. In this context , the focus of the saccos to achieve innovative capabilities may causes disruption of social and human capital; hence negatively impacting performance .

H_{02} There is no statistically significant relationship between ethical leadership and performance of matatu Saccos in Meru County

The second hypothesis of the study was to confirm whether ethical leadership had a significant statistically relationship with the performance of matatu Saccos. A simple liner regression model was used to determine the relationship between ethical leadership and the performance of matatu Saccos.

Table 4.20

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.527[a]	.278	.260	.461

a. Predictors: (Constant), ethical leadership

R square value (0.278) indicates that 27.8 percent variations in the performance of matatu sector can be explained by ethical leadership.

Table 4.21

Regression ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.343	1	3.343	15.750	.000[b]
	Residual	8.703	40	.212		
	Total	12.047	41			

a. Dependent Variable: performance

b. Predictors: (Constant), ethical leadership

Table 4.21 shows that the relationship between ethical leadership and Saccos performance was statistically significant, $F(1, 2) = 15.75$, $p<0.05$; hence the model was significant in explaining the relationship between ethical leadership and the performance of Matatu Sacco

Table 4.22

Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.991	.419		7.146	.000
	Ethical leadership	.369	.093	.527	3.969	.000

a. Dependent Variable: performance

Table 4.22 indicates the linear regression estimate the relationship between ethical leadership and the performance of matatu Saccos. The model indicates that ethical leadership significantly predicted the performance of matatu Saccos (β=0.527, $p<0.05$). The beta value shows that for a unit increase in ethical leadership, the performance of matatu Saccos increased by 0.527 units Therefore, the study concluded that there is statistically significant relationship between ethical leadership and the performance of matatu Saccos; hence we fail to accept the null hypothesis. The results are in agreement with the previous studies by Amisano and Anthony (2017); Ferrell et al. (2015) among others; associating ethical leadership with enhanced organizational performance.

H_{03} There is no statistically significant moderating effect of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.

The third hypothesis was to determine whether there is a statistically significant moderating effect of ethical leadership on the relationship between dynamic capability and the performance of matatu Saccos. For this purposes, multiple linear regression was used to establish the direction and magnitude of between dynamic capabilities, moderating variable (ethical leadership) and employee commitment.

Table 4.23

Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.599[a]	.359	.309	.445	.359	7.265	2	39	.001
2	.716[b]	.513	.461	.393	.154	12.019	3	38	.001

a. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability

b. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability, ethical leadership

Comparison of model 1 and 2 indicates that there is a change caused by the moderating variable. The R square value of model 2 is 0.461, indicating that 46.1 percent change in variation can be explained by moderating variable (ethical leadership). The change in interaction effect is also statistically significant ($F=1$, $2=12.02$ $p<0.05$)

The analysis of regression ANOVA indicates that the model was statistically significant at explaining the moderating effect of ethical leadership on the relationship between the dynamic capability and the performance of matatu Saccos ($p<0.05$).

Table 4.24

Regression ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.319	5	1.440	7.265	.001[b]
	Residual	7.728	36	.198		
	Total	12.047	41			
2	Regression	6.176	5	1.544	9.994	.000[c]
	Residual	5.871	36	.154		
	Total	12.047	41			

a. Dependent Variable: performance

b. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability

c. Predictors: (Constant), innovative capability, absorptive capability, adaptive capability, ethical leadership

Table 4.25

Regression coefficient

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.049	.501		6.090	.000
	Adaptive capability	.200	.097	.280	2.065	.046
	Absorptive capability	.291	.067	.568	4.368	.000
	Innovative capability	-.111	.079	-.192	-1.405	.168
2	(Constant)	2.040	.529		3.853	.000
	Adaptive capability	.131	.088	.183	1.493	.144
	Absorptive capability	.251	.060	.489	4.173	.000
	Innovative capability	-.061	.071	-.105	-.849	.401
	Ethical leadership	.288	.083	.412	3.467	.001

a. Dependent Variable: performance

The moderation hypothesis is supported if interacting effect is statistically significant in predicting relationship between the variables (Fairchild & MacKinnon, 2008) .The depicting of the coefficients results indicates that the moderating variable-ethical leadership- was significant ($p<0.05$); hence we fail to accept the null hypothesis that there that there is no significant moderating effect of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos. This findings support the findings of Zhu et al. (2013) and Khademfar & Amiri (2011) that ethical leadership is has moderating effects on the firm performance.

4.9 Summary of hypothesis tests

The chapter presented the findings and discussion of research findings. The hypothesis one was grouped into more specific sub-hypothesis to statistically examine each elements of dynamic capability. The summary of hypothesis testing are shown in table 4.26

Table 4.26

Hypothesis testing summary

Objectives	Hypothesis	Tests of hypothesis tests
To determine the effect of dynamic capability on the performance of matatu Saccos in Meru County.	There is no statistically significant relationship between adoptive capability and performance of matatu Saccos	Accepted
	There is no statistically significant relationship between absorptive capability and performance of matatu saccos.	We failed to accept
	There is no statistically significant relationship between innovative capability and performance of matatu saccos.	Accepted
To establish the effect of ethical leadership on the performance of matatu Saccos in Meru County.	There is no statistically significant relationship between ethical leadership and performance of matatu Saccos in Meru County.	We failed to accept
To investigate the moderating effects of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.	There is no statistically significant moderating effect of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.	We failed to accept

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This section presents the summary of key findings of the study. Specifically, the contents highlighted include summary of the key findings, conclusions based on the objectives and recommendations based on the results of the study. The recommendations are grouped into; recommendations on research findings and recommendations for further research.

5.1 Summary of the study

The purpose of the study was to determine the role of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County. The research was motivated by the limited empirical information on how ethical leadership affects the relationship between dynamic capabilities and performance of Saccos. To achieve the intended purpose, the study was guided by three objectives. 1) To determine the effect of dynamic capability on the performance of matatu Saccos in Meru County; 2) To establish the effect of ethical leadership on the performance of matatu Saccos in Meru County; 3)To investigate the moderating effects of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County. The study was guided by theory of dynamic capability. Based on theoretical and empirical review of dynamic capabilities, the three types of dynamic capability namely adaptive capability, absorptive capability and innovative capability were assessed.

5.2 Conclusion

Conclusions of the study are grouped based on the objectives and hypothesis. The conclusions are based on results obtained from the statistical analysis. There are three major types of dynamic capabilities; hence the research was narrowed to assess each type of capabilities.

Effect of dynamic capability on the performance of matatu Saccos in Meru County.

The first objective of the study was to establish the effect of dynamic capability on the performance of matatu Saccos. To achieve this objective, the study was guided by the objective that "there is no statically significant relationship between dynamic capability and performance of matatu Saccos. This objective was further sub-grouped into three sub-hypothesis. 1) There is not relationship between adaptive capability and performance; 2) there is no statistically significant relationship between absorptive capability and performance; 3) there is no statistically significant relationship between innovative capability and performance. The study established that adaptive capability did not significantly influence the performance of matatu Saccos. Also, innovative capability did not have any relationship with the performance. However, absorptive capability had a significant influence on the performance

The effect of ethical leadership on the performance of matatu Saccos in Meru County.

To achieve this objective, the study was guided by the hypothesis that there is no statistically significant relationship between ethical leadership and the performance of matatu Saccos. The evidence indicates that there is a significant relationship; hence the null hypothesis was rejected. Therefore, the study concluded that ethical leadership has a significant influence on the performance of matatu Saccos.

The moderating effects of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County.

The third objective of the study was to investigate the moderating effects of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos in Meru County. The hypothesis that guided this objective was "there is no statistically significant moderating effect of ethical leadership on the relationship between dynamic capability and performance of matatu Saccos". The statistical analysis indicated that ethical leadership had a significant moderating effect on the relationship between dynamic capabilities and the performance. The study thus concludes that ethical leadership has a moderating relationship between dynamic capability and the performance.

5.3 Recommendations

Recommendations on research findings

The first takeaway of the study is that the management should assess the organizations dynamic capabilities, and build them overtime and invest organizational efforts, time and effort, because dynamic capabilities are unique to the firm. The identification of the firms' dynamic capabilities is the first step towards ensuring that the organization achieves the associated benefits such as improved performance.

The organizations should also make the necessary commitment to cope with the tradeoffs associated with pursing any type dynamic capabilities. Pursuing any type of dynamic capabilities will result in a substantial disruptions and changes, and processes that can affect the performance. Pursuing adaptive capabilities without taking into considerations of organizations processes and changes may not necessarily lead to improved performance. Also, executing innovative capabilities requires significant investment in new technologies, models and training; hence it is important for the management to understand that the benefits associated with this type of capability may not be realized in the short-term.

Management should also embrace the concept of absorptive capability .Absorptive capability is associated with the organization's ability to recognize emerging external information and use it to achieve competitive advantage. Therefore,

organizations should promote learning to ensure that the external knowledge can be used to enhance the performance.

The study also recommends that the management and the members of the Sacco should strive to ensure that the elected board members exhibit ethical values because the study has established that ethical leadership leads to the improved performance. Furthermore, the Saccos should also strive in ensuring that the established ethical standards and code of conduct are complied with. Finally, for the dynamic capability to improve performance, ethical leadership values should be given priority by Saccos.

Recommendations for further research

The research has added to the existing on the literature on dynamic capability and the role of ethical leadership in the organizational performance. The study has opened new study gaps that should be addressed. Further research should be conducted in other areas of operations to determine whether socio-cultural and geographical influences have effect on the study variables. Also, more studies should be conducted using other types of capabilities and performance measures including financial measures. Additionally, other factors related to dynamic capabilities such as underlying processes of integration, reconfiguration, renewal and recreation should also be included as variables of the study.

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Appendices

Appendix 1: Introduction Letter

To Whom It May Concern.

RE: REQUEST FOR PARTICIPATION IN THE STUDY.

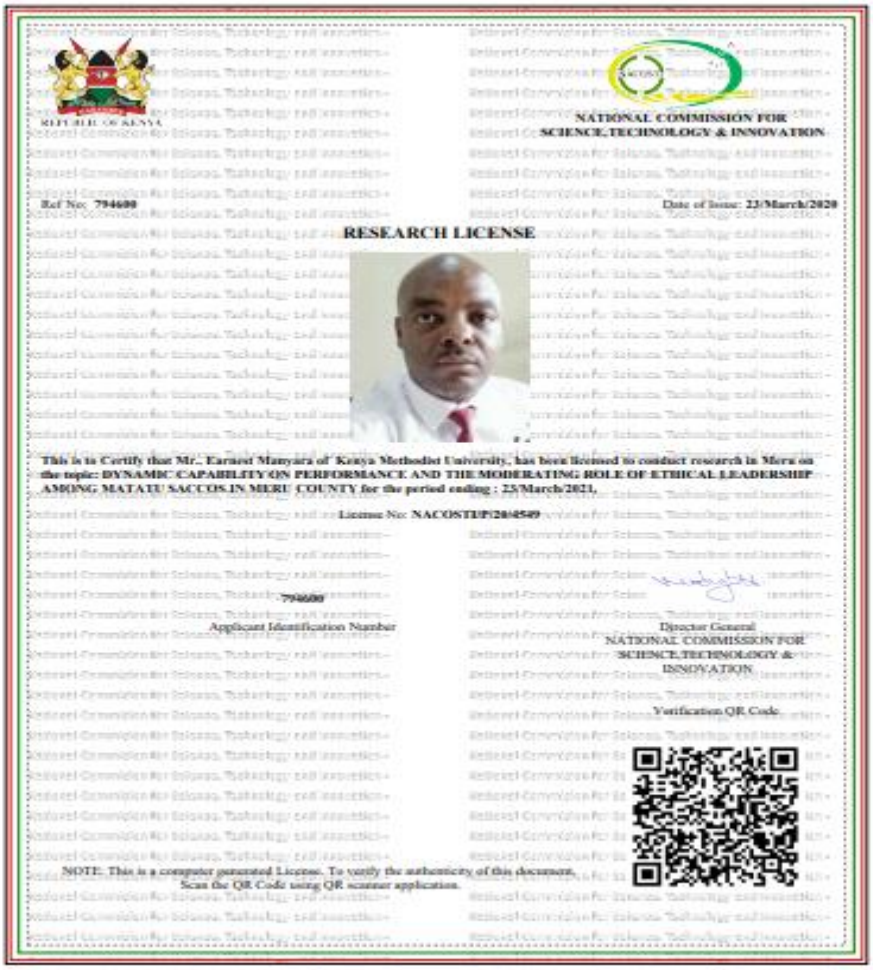
I am Earnest Kubania Manyara, a student of Kenya Methodist University pursuing Master Degree in Business Administration. As part of the partial requirement for the mentioned Master's program, I am required to research on **"*The Role of Ethical Leadership on the Relationship between Dynamic Capability and the Performance of Matatu Saccos in Meru County***". I am therefore requesting for your voluntary participation in the research.

As a respondent, you are required to fill the questionnaire with the guidance of the researcher. All the information corrected will confidential and used for academic purposes only. The questionnaire will take about 30 minutes to complete.

Yours Sincerely

Earnest Kubania Manyara

Appendix 2: NACOSTI Research permit



REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 794600

Date of Issue: 23/March/2020

RESEARCH LICENSE

This is to Certify that Mr.. Earnest Manyara of Kenya Methodist University, has been licensed to conduct research in Meru on the topic: DYNAMIC CAPABILITY ON PERFORMANCE AND THE MODERATING ROLE OF ETHICAL LEADERSHIP AMONG MATATU SACCOS IN MERU COUNTY for the period ending : 23/March/2021.

License No: NACOSTI/P/20/4549

794600

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

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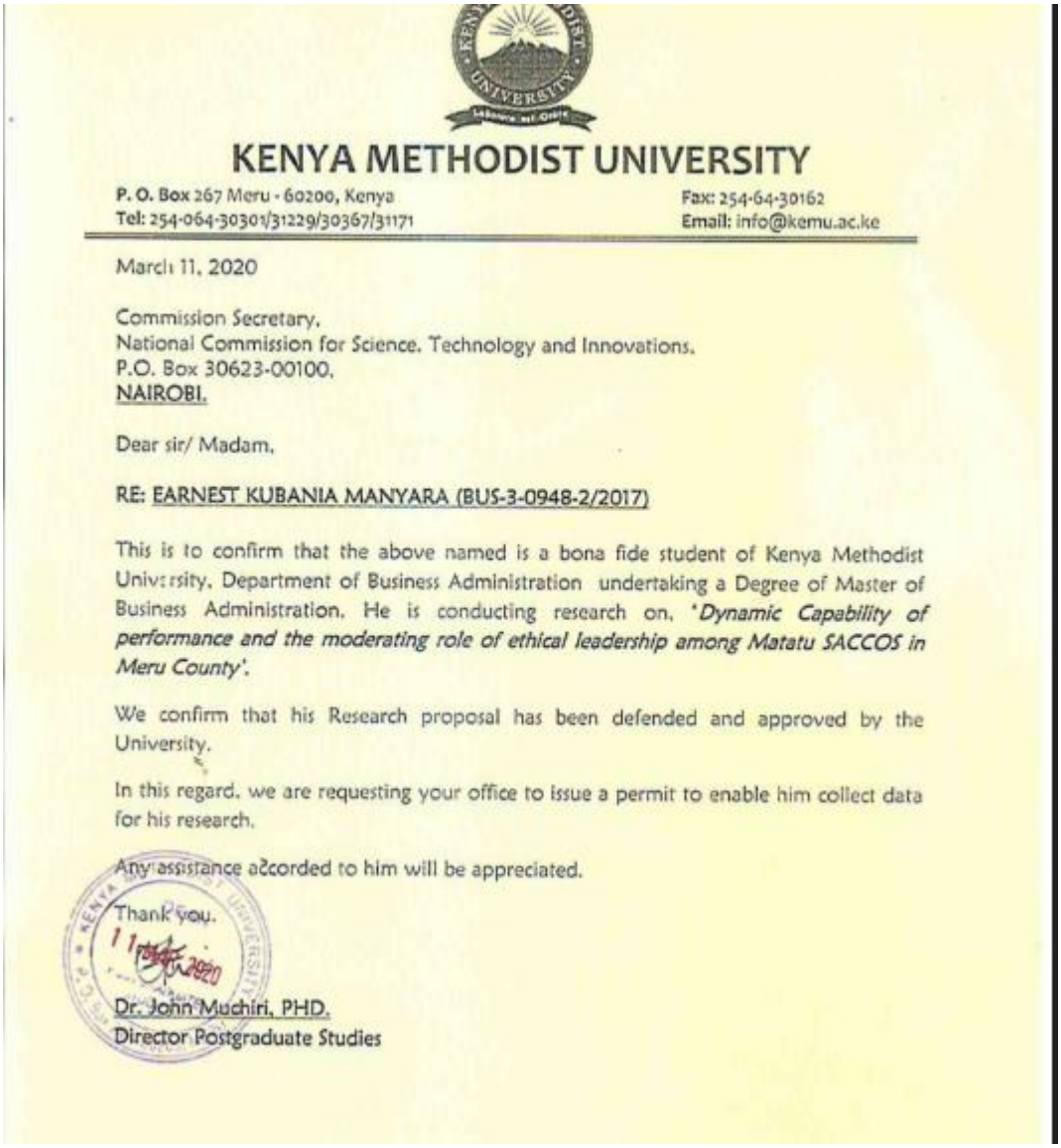
Appendix 3: University Authority Letter



KENYA METHODIST UNIVERSITY

P. O. Box 267 Meru - 60200, Kenya
Tel: 254-064-30301/31229/30367/31171
Fax: 254-64-30162
Email: info@kemu.ac.ke

March 11, 2020

Commission Secretary,
National Commission for Science, Technology and Innovations,
P.O. Box 30623-00100,
NAIROBI.

Dear sir/ Madam,

RE: EARNEST KUBANIA MANYARA (BUS-3-0948-2/2017)

This is to confirm that the above named is a bona fide student of Kenya Methodist University, Department of Business Administration undertaking a Degree of Master of Business Administration. He is conducting research on, '*Dynamic Capability of performance and the moderating role of ethical leadership among Matatu SACCOS in Meru County*'.

We confirm that his Research proposal has been defended and approved by the University.

In this regard, we are requesting your office to issue a permit to enable him collect data for his research.

Any assistance accorded to him will be appreciated.

Thank you.

11 MAR 2020

Dr. John Muchiri, PHD.
Director Postgraduate Studies

Appendix 4: Questionnaire

Section 1: General information.

1. Gender

☐ Male

☐ Female

2. Highest levels of education

☐ Postgraduate

☐ Graduate

☐ Undergraduate.

☐ Diploma

☐ Professional qualification

3. Work experience.

☐ Less than 1year

☐ 1-2 years

☐ 3-4 years

☐ Above 4 years.

4. Management Committee

☐ Finance and administration committee

☐ Education committee.

- ☐ Supervisory.
- ☐ Credit committee.

Section 2: Dynamic capabilities

Please indicate by checking to what extent the Sacco has adapted following elements of dynamic capabilities to enhance the performance as per scale of 1-5. 5- Very great extent, 4 great extent, 3 moderate extent, 2 low extent and 1 None.

Scale Items	1	2	3	4	5
Adaptive Capabilities					
1. The rate of adapting to the changes in the business environment is high					
2. The changes in the operating environment are regularly reviewed.					
3. The operating capabilities are regularly reviewed to comply with changes					
4. The organizational resources are focused on the fulfillment of changing customer preferences.					
5. There is a feedback mechanism to assess the satisfaction of the clients.					
6. The board members regularly attend the forums to learn about changing trends in the public transport sector					
7. The employees regularly attend the forums to learn about changing trends in the public transport sector					
Absorptive capability					
8. The knowledge gathered from the external sources is					

integrated into Sacco's strategies.					
9. The externally sourced capabilities are combined with the existing capabilities.					
10. There are mechanisms and processes to assimilate the new knowledge in the organization processes and strategies					
11. The board uses the information gathered to plan to implement new management approaches that suit the business processes.					
12. The Sacco transforms the information gathered to new capabilities such as offering new services.					
13. There are activation triggers that assist in the movement of knowledge gathered across the Sacco.					
14. There are strategies to maximize utilization of the knowledge gathered than our competitors.					
Innovative Capabilities					
15. The Sacco utilizes modern technologies to enhance the processes.					
16. The implemented solutions to the problems are customer centered.					
17. There is a budgetary allocation for research and development.					
18. The Sacco has high success in new service innovations.					
19. The Sacco invests on the systems that have long-term benefits.					
20. It is possible to forecast the demand for transport services accurately.					
21. The Sacco monitors new technological advancements.					
22. Formal product management approaches such as					

innovation funnel or PMBOK are used.					

Section 3: Performance

Please respond to the following statement on various aspects of performance measures checking appropriate the levels of the following performance measures as per scale of 1-5. 5- Very great extent, 4 great extent, 3 moderate extent, 2 low extent and 1 None.

SCALE	1	2	3	4	5
Revenue growth					
23. The rate of revenue growth is sustainable					
24. The increase in the number of the customers relative to the competitor is high					
25. The extent at which the firm reaches the revenue targets is high					
26. The level of the shareholders' satisfaction with the growth is satisfactory					
27. There is growth relative to the market leaders					
28. The interest on members deposit is increasing					
29. The rate dividends is increasing					
30. There is increase on loan to members.					
31. The member deposits are growing at a steady rate.					
Sacco survival					
32. The Sacco has financial strategy to deal with environmental changes.					
33. The Sacco is venturing in market penetration and expansion strategies.					

34. The firm has resources with the main competitors.						
35. There rate of conflicts with regulators is low.						
36. There are few customer complaints.						
37. There has been an increase in the number of members over the past three years.						
Sacco efficiency						
38. The extent of savings due to better process organization is high						
39. The processes are efficient.						
40. There is a problem of non-achievement of the targets due to poor process .						
41. The revenue is increasing due to the utilization of innovative solutions.						
Competitive advantage						
42. The Sacco produces excellent services that are better than those of competitors.						
43. The reliability of Sacco services among the clients is satisfactory.						
44. The Sacco regularly receive warnings by the regulator.						
45. The rate of accidents among the Sacco Matatus is high.						
46. The customer parcels are delivered within the specified time.						
47. The Sacco has brand advantage over the rivals.						
48. The Sacco operational areas have competitive advantage						
49. The customers are satisfied by the Saccos services than the competitors' ones.						

Section 4: Moderating effect of ethical leadership

Please respond to the following statements on ethical leadership as per scale of 1-5.

5- Very great extent, 4 great extent, 3 moderate extent, 2 low extent and 1 None.

SCALE	1	2	3	4	5
50. The board insists on accountability when relaying financial information to the investors.					
51. The board members are always vetted					
52. There communication of ethical matters to the employees.					
53. The financial information is disclosed to the investors					
54. The Sacco engages in corporate social responsibility					
55. The leaders set good examples to the staff					
56. The board members uphold equity and fairness in the performance of their duties					
57. The employees are involved in decision making					
58. The board members portrays themselves as good role models					
59. The leaders complement the employees' compliance with the code of ethics.					
60. The board members makes the employees proud					
61. The concerns for the employees and the shareholders needs are always addressed.					
62. The Sacco members are involved in the making of policies					

63. The employees are confident with the board members running of Sacco affairs.					
64. The members of the board use their power for the overall benefit of the Sacco					
65. The board uses the laws, policies and ethical standards to solve the conflicts.					