



LEADERSHIP STYLES AND PERFORMANCE OF SACCOS IN KIRINYAGA COUNTY, KENYA

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Abstract

Leadership style is a key determinant of the success or failure of any organization. The banking industry in Kenya has witnessed tremendous changes brought about by globalization, liberalization, intense competition among rivals, changing regulatory guidelines, technology, and more demanding customers. These changes in the dynamic business environment require leadership that can enable both the people and the organization to adapt and be successful. The most common leadership styles and frameworks include autocratic leadership, bureaucratic leadership, charismatic leadership, transactional leadership, and transformational leadership. Despite all of the headlines about banking profitability, Sacco's and financial institutions are still not making enough returns on investment based on shareholders expectations. The Sacco's are also not meeting consumer expectations. Today, the customer experience is key, and many Sacco's are facing a challenge of their inability to deliver the level of service that consumers are demanding especially in regards to technology. The aim of this study was to establish the relationship between leadership styles and performance of Sacco's in Kenya. The study was guided by the following objectives; to examine out the effect of transactional leadership, transformational leadership, bureaucratic leadership and democratic leadership style in performance of Sacco's in Kenya. The study recommended Sacco's that the need to transform their leadership styles to enable them turn around their performance and remain competitive in the financial sector. Future researchers should consider other leadership styles such as autocratic, laissez-faire and also undertake a study in different contexts.

Keywords: Leadership Style, Transformational Leadership, Bureaucratic leadership, Transactional Leadership, Democratic Leadership and Performance.

Introduction

This study aimed at establishing the effect of leadership styles on performance of Sacco's in Kirinyaga County, Kenya. This study aimed at establishing the effect of leadership styles adopted by the SACCOs, and to examine its effect on SACCO's performance, which invariably translates to organizational performance.

Background of the Study

Corporate performance is an essential concept in management research since measurement of performance gives indication as to the effectiveness of a corporation. The ongoing globalization process has dramatically changed the business landscape affecting business organizations performance. The search to explain corporate performance variability has developed from what are essentially inanimate variables-strategy/structure relationships, a focus which shifted towards the more animate problems of implementation and more recently, upon the leadership of an organization (Hambrick and Mason, 2007). Leadership is considered a factor that has a major influence on the performance of organizations and the leadership style adopted is a key determinant of the success or failure of any organization. Despite the large number of studies on effect of leadership styles on performance, research has yielded inconsistent results, and the question of the effect of leadership styles on performance still remain open and hence the focus of this study.

The most common leadership styles and frameworks include autocratic leadership, bureaucratic leadership, charismatic leadership, transactional leadership, and transformational leadership, all of which are based on several different approaches to leadership. Each style of leadership affects organizational performance differently; some helping organizations succeed and others hamper their growth leading to failure. Saccos which are institutions that provide financial services, including issuing money in various forms, receiving deposits of money, lending money and processing transactions and the creating of credit (Mills, 2005) and further form financial intermediaries that serve as financial resource mobilization points in the global economy are not an exemption.

Statement of the Problem

The emergence of new and diverse financial products creates new challenges for financial institutions that now face a host of product mix and marketing questions along with new competitors (Harker & Zenios, 2000) and

Saccos are not an exemption. There has been a serious need for Saccos to upgrade their management capacity especially in areas of Information Technology, Marketing and Customer Services that will see Saccos improve their customers' base, run efficiently and attract new talents that will bring new innovations into the financial sector (Kenya Saccos Societies Act, 2010). The leadership of an organization influences the strategic direction the organization is likely to take. And the leadership style adopted can lead to the success or downfall of the business. Hence the focus of this study is to determine the effect of leadership styles on performance of Saccos in Kirinyaga County.

Research Objectives

The general objective of this study was to establish the influence of leadership styles on the performance of Sacco's in Kenya.

Specific Objectives

- i. To establish the effect of transactional leadership style on performance of Sacco's in Kenya
- ii. To determine the effect of transformational leadership style on performance of Sacco's in Kenya
- iii. To assess the effect of bureaucratic leadership style on performance of Sacco's in Kenya
- iv. To establish the effect of democratic leadership style and performance of Sacco's in Kenya

Leadership Styles

There are a number of leadership styles which include democratic leadership style, bureaucratic leadership, transactional and transformational leadership styles amongst others. Hargis *et al.*, (2011) traced the origin of transactional leadership to the exchange-based leadership theories of the 1980s. Hargis *et al.*, (2011) explained that transactional leaders achieve their mission by articulating goals and objectives clearly, and offering rewards for goal achievement. In addition, the scholars noted that active management by exception leaders monitor and observe employee performance continually while passive management by exception leaders intervene only when employees make mistakes. Ismail *et al.*, (2010) established that transformational leaders articulate organizational vision, demonstrate awareness of employee needs, develop follower creative abilities, provide resources for intellectual capacity development, and display moral and ethical standards by employing the five components of transformational leadership.

Bureaucratic leaders create, and rely on, policy to meet organizational goals. Policies drive execution, strategy, objectives and outcomes. Bureaucratic leaders are most comfortable relying on a stated policy in order to convince followers to get on board. In doing so they send a very direct message that policy dictates direction. Bureaucratic leaders are usually strongly committed to procedures and processes instead of people, and as a result they may appear aloof and highly change adverse. The specific problem or problems associated with using policies to lead are not always obvious until the damage is done. The danger here is that leadership's greatest benefits, motivating and developing people, are ignored by bureaucratic leaders (Michael, 2010).

Tannenbaum and Schmidt (1958) describe democratic leadership as one where decision-making is decentralized and shared by subordinates. The potential for poor decision-making and weak execution is, however, significant here. The biggest problem with democratic leadership is its underlying assumption that everyone has an equal stake in an outcome as well as shared levels of expertise with regard to decisions. That is rarely the case. While democratic leadership sounds good in theory, it often is bogged down in its own slow process, and workable results usually require an enormous amount of effort.

Firm Performance

Performance is a major multidimensional construct aimed to achieve results and has a strong link to strategic goals of an organization (Mwita, 2000). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard *et al.*, (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment among others); product market performance (sales, market share) and shareholder return (total shareholder return, economic value added). Additionally the Kaplan and Norton (1996) balanced score card model indicates that corporate performance not only includes financial measures but also customer criteria's such as customer satisfaction and retention, improving business processes such as best practices and innovativeness. They also include employees' criteria's such as job satisfaction and wellbeing. In this study, performance was operationalized in terms of customer satisfaction, corporate image and employee development.

Theoretical Literature Review

There are many different leadership theories that have emerged from the last century, early theories on leadership concentrated on identifying qualities that differentiated between leaders and followers. Subsequent theories on leadership looked at other variables such as situational issues and levels of skill. Over time, a number of theories on leadership and performance have been proposed. Bratton (2007) observes that leadership theory types include two axes: of those which are related to organizational effectiveness and tend to be more prescriptive in

orientation, and of those which are primarily analytic and meant to better understand the concept. However, it is not always easy to classify any of the theories as one or the other exclusively.

Traits Theory

This theory was proposed by Ralph Stogdill in 1974. The theory proposes that individuals possess certain personality traits that partially determine their behavior. Trait theorists believe personality can be understood by positing that all people have certain traits, or characteristic ways of behaving. Personality traits are prominent aspects of personality that are exhibited in a wide range of important social and personal contexts (Furnham *et al.*, 1994). Individuals have certain characteristics that partly determine their behavior; these traits are trends in behavior or attitude that tend to be present regardless of the situation (Yukl, 2006).

Behavioural Theory

This theory was proposed by Dr. Rensis Likert in 1950s. Behavioural theory of leadership state that it is the behaviour of leaders that distinguishes them from their followers. It focuses on the actions of leaders rather than on mental qualities or internal states with the belief that great leaders are made, not born. According to this theory, people can learn to become leaders through teaching and observation. Behaviour theory examines whether the leader is task oriented, people oriented, or both. Studies conducted at the University of Michigan and Ohio State University in 1945, established two major forms of leader behaviour namely: employee-centred and production-centred (Hersey and Blanchard, 1988).

Situational Theory

Fiedler's situational theory was developed by Fred Fiedler in the late 1960s. He believes in a situational leadership style; that is the successful leader is one who adapts his style to the circumstance. Fiedler believes that there are two key types of the leader, the task-oriented leader and the people-oriented leader. According to Fiedler's situational Theory, the elements that would affect the effectiveness of leadership are: how clearly defined and structured the job scope is, how much positional power the leader has and the relationship between the leaders and the followers.

Contingency Theory

This theory was first proposed by Fred Fiedler in 1952. The theory asserts that there is no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action is contingent (dependent) upon the internal and external situation. Contingency theory is an approach to leadership in which leadership effectiveness is determined by the interaction between the leader's personal characteristics and aspects of the situation. Three models exist in this leadership approach: Fiedler's (1967) co-worker theory, House's (1971) path-goal theory, and Hersey and Blanchard (1969) situational leadership theory. From this approach and the three models no leadership style is best in all situations. Success depends upon a number of variables, including the leader's preferred style, the capabilities and behaviours of the followers, and aspects of the situation. Effective leadership requires adapting one's style of leadership to situational factors, and control is contingent on three factors namely the relationship between the leader and followers, the degree of the task structure and the leaders' authority, position or power.

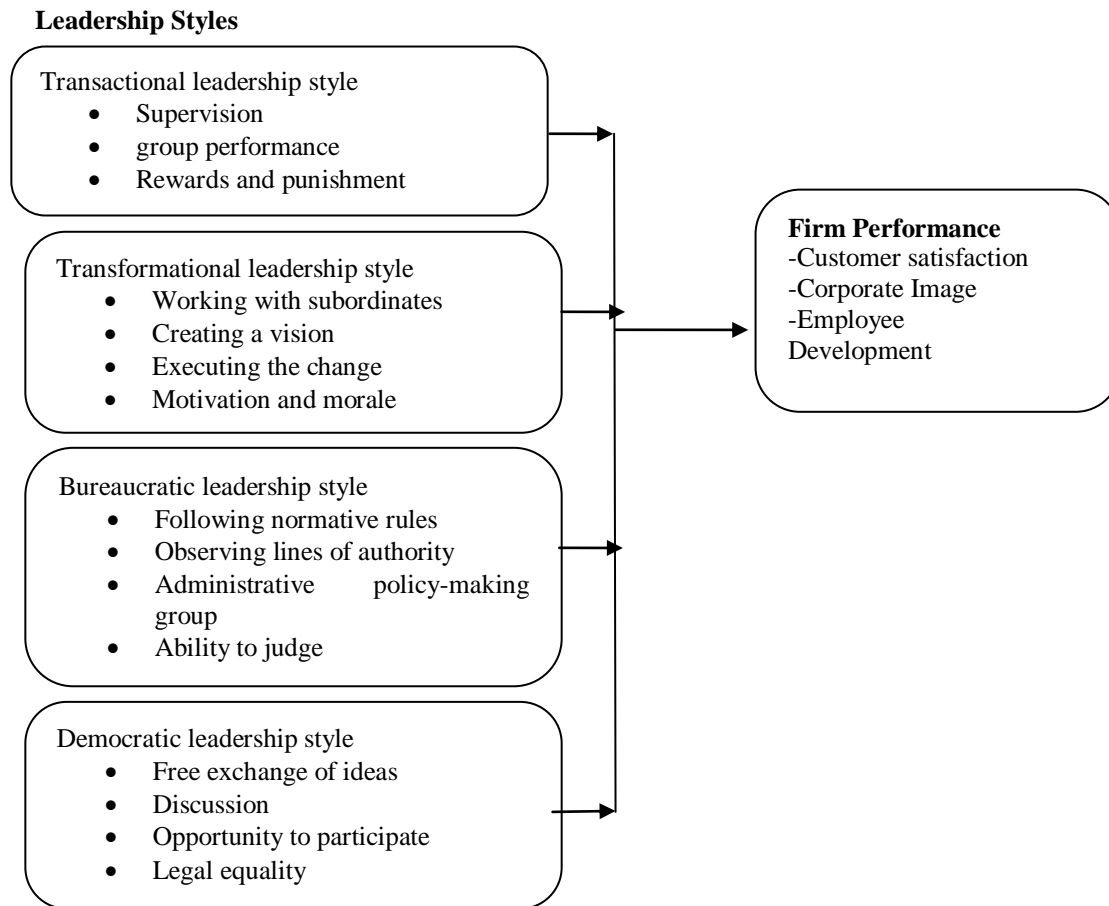


Figure 2:1 The relationship between Leadership Styles and Performance of Saccos in Kirinyaga County
Source: Researcher (2017)

Conceptual Framework

The conceptual framework in figure 2.1 above portrays the relationship between the Independent Variable (Leadership Styles) and Dependent Variable (Firm Performance).

Research Design and Methodology

This study was done using descriptive survey design. A semi-structured questionnaire was designed and distributed to 92 employees of Saccos in Kirinyaga County. Of the 92 questionnaires issued, a total of 90 questionnaires were returned. Thus the response rate was 98% According to Baruch (1999) and Baruch and Holton (2008), a response rate of 30% to 80% is considered to be good and is acceptable. Muchemi (2013) cited 70% as a good response rate. This response return rate is therefore considered to be good because it meets the threshold of statistical significance. In particular, hypotheses were developed to evaluate the effects and significance of democratic leadership style, bureaucratic leadership, transactional and transformational leadership styles on Performance. To measure the variables, a 5 point Likert scale was developed based on a continuum from strongly agree to strongly disagree with the neutral point being “undecided”. Both descriptive and inferential statistical analysis techniques were used. Multiple regressions was used to test the relationship between the variables.

Empirical Model

A multiple regression model (inferential statistics) was applied to establish the relationship between the independent and dependent variables. The multiple regression model employed was as follows;

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e, \text{ where;}$$

Y_i is the Dependent or Response Variable;

β_0 is the Constant;

$\beta_1, \beta_2, \beta_3, \beta_4$ are the regression coefficients or slope of the regression line,

X_1, X_2, X_3, X_4 are the independent or predictor variables; and e is the error term or prediction error.

Validity and Reliability

A pilot study was conducted to establish the reliability and validity of the research instrument. Content validity was established by subjecting the questionnaire to review by the supervisor and other experts in the field of leadership. The research instrument was modified on the basis of the pilot test before administering it to the study respondent's. The research instrument was subjected to a reliability test using Cronbach's alpha (α) coefficient which ranges in value from 0 to 1. The higher the score, the more reliable the generated scale is. The overall Cronbach's alpha for all constructs was 0.761 which was deemed acceptable since it was higher than 0.7 which is recommended cut off point by Nunnally (1978).

Research Findings

This study was guided by four objectives that included establishing the effect of democratic, bureaucratic, transformational and transactional leadership styles on performance. The findings are presented and analyzed on the basis of the research hypothesis and specific objectives.

Test of Hypothesis

A regression model was used to test the influence of leadership style on performance of Saccos. This helped to evaluate and understand the relationships between the dependent and independent variables of the study. Multiple linear regression equation was employed as it uses two or more independent variables to predict the outcome. The general form of multiple Regression model was: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$. The following is the outcome of multiple regressions of the four independent variables against the dependent variable

	Model	Adjusted R ² -change	P-Value	F -change
1	There is no significant relationship between transactional leadership style and performance	0.663	0.024	8.699
2	There is no significant relationship between transformational leadership style and performance	0.432	0.025	7.8672
3	There is no significant relationship between bureaucratic leadership style and performance	0.497	0.040	5.492
4	There is no significant relationship between democratic leadership style and performance	0.597	0.022	7.320

(Source: Research Data, 2017)

From the research findings presented on Table 2.2 above, on establishing the effect of transactional leadership style on performance, R^2 was 0.663, p-value was 0.024. This implies that Transactional Leadership had a positive and significant relationship with performance and further, 66.3% of performance in Saccos in Kirinyaga County was explained by Transactional Leadership Style. Further, on testing the effect of transformational leadership style on performance, R^2 was 0.432 and P-value was 0.025. This implies that transformational leadership style had a positive and significant relationship with performance and transformational leadership style explained 43.2 % of performance of Saccos in Kirinyaga County. The R^2 value in table 5.1 (a) was 0.719 indicating

On the relationship between bureaucratic leadership style and performance, R^2 was 0.497 and P-Value was 0.040. This shows that bureaucratic leadership style had a positive and significant effect on the performance of Saccos and this leadership style explained 49.7 % of the performance in Saccos. Finally when the relationship between democratic leadership style and performance was tested, the research findings showed that R^2 was 0.597 and P-Value was 0.022. This shows that democratic leadership style had a positive and significant effect on the performance of Saccos and that democratic leadership style explained 59.7 % of the performance in Saccos.

Conclusion

Since all the leadership styles had a positive and significant effect on performance, then the study concludes that leaders in Saccos must pay key attention to the leadership styles they adopt. Further, the study established that Transactional and Democratic leadership styles had the highest influence on performance. Leaders in Saccos should therefore adopt these leadership styles but not ignore the other styles since they too have a positive and significant effect on performance. Engaging other forms of leadership like transformative, transactional and democratic for young and growing SACCOS is instrumental in fostering growth and productivity as indicated by Smith (2012) on why organizations need to combine the four styles for greater productivity.

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