

**TRANSFORMATIONAL LEADERSHIP AND PERFORMANCE OF
COMMERCIAL BANKS IN KENYA**

BY:

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REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
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NAIROBI**

NOVEMBER, 2020

DECLARATION

I declare that this management research project is my original work and has not been submitted for an award at any university or institution of higher learning.


Signature.....

Date 10th November, 2020

ALICE WAMBUI KAMAU

D61/11328/2018

This management research project has been submitted for presentation with my approval as the University supervisor.

Signature.....

Date 17th November, 2020

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DEDICATION

This study is dedicated to my family and friends. A special feeling of gratitude to my late mother Agnes Wakarima whose words of encouragement pushed me through, to my father and siblings for their support as well as to the almighty God for the wisdom and good health on the entire journey.

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My deepest appreciation goes to my Supervisor, Prof. **Martin Ogutu** for his great guidance during the process. I also acknowledge my family members for their support during the process. Above all I am grateful to God for the gift of life and wealth of mind in the entire period.

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ABBREVIATIONS AND ACRONYMS

ATM-Automated Teller Machine

GDP-Gross Domestic Product

GOK-Government of Kenya

ROE- Return on Equity

ROA-Return on Assets

VAT-Value Added Tax

ABSTRACT

This research study aimed at establishing the relationship between performance of Commercial Banks and transformational leadership in Kenya. A cross sectional research design was used to study the research problem and data was collected from the Commercial Banks in Kenya. 30 top banks made up the study population and the inquiry used questionnaire for data collection. However, the data analysis was done using SPSS model and regression analysis conducted to show the relationship between the variables under study. The conclusion found was that the adoption of transformation leadership strategies such as idealized influence, intellectual stimulation strategies as well as inspirational motivation plans and individualized consideration strategies is directly correlated with the performance of the Commercial Banks in the country. It was further showed that transformational leadership style allowed the bank top management to provide their employees with inclusion support plans, shared vision and ability to provide stronger relationship with different stakeholders. The study also found out that the adoption of participatory and democratic leadership style is associated with strong bank's performance. This is because the findings indicated that the banks whose leadership had adopted transformational leadership exhibited increased performance over time. The study then concluded that there existed a strong positive relationship between performance of Commercial Banks and transformational leadership. The study recommends that the management of the commercial banks needed to adopt effective transformational leadership styles in their management programs to enhance their performance. This study also suggests that top management of commercial banks should be trained on the how to use transformational leadership models to improve the banks' performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The tenets of leadership include the action of inspiring others as well as equipping and developing of followers, especially with the ability to provide direction on pertinent matters and also deploy the available resources to enhance the achievement of the firm's objectives (Feinberg, Ostroff & Burke, 2015). However, transformational leadership refers to the leader's ability to work with the other employees in non-managerial employees to identify any necessary change, to set goals and objectives that exist to pursue in line with their vision and mission of the organization, ability to put considerable effort towards the achievements of the organization goals to a point that makes it easier to achieve the probability of success levels in organizations as well as ability to formulate visions that propel the change through by inspiring and executing the changes in conjunction with other teams and committees (Chin, 2017). Transformational leadership is critical in that it results into gradual positive changes within both the individuals and social systems (Walumbwa & Hartnell, 2011). Since transformation leadership is based on various factors such as the leader's ability to punish, reward, motivate and provide guidance or direction, it has been argued that it can help promote performance of organizations.

This study utilized the upper echelons theory as well as the theory of transformational leadership. Upper Echelons Theory (UET) has aroused considerable interest in strategic management and is one of the most researched theories in the realm of organization and

management (Sadeghinejad, 2013). It encapsulates the ideas of Donald Hambrick and Phyllis Mason as first published in 1984 in the journal of *Academic Management Review* (Hambrick & Mason, 1984). Upper echelons theory argues that organizational outcomes have partial proportionality to the top-level management team's managerial background characteristics. However, the transformational leadership theory supports the view that effective leaders mostly collaborate with their teams to provide the needed change especially by formulating visions that drive the change by inspiring and executing the change in collaboration with motivated teams (Mukhongo, 2013). Notably, the study determines the relationship between performances of the Commercial Banks with transformational leadership.

Many studies have been conducted with the aim of determining how transformation leadership affects performance. For example, Waldman, Siegel & Javidan (2016) conducted a study in Turkey's health sector and noted that methods of transformational leadership excel in turbulence business conditions and it is one of the firm management programs associated with organizational excellence and high-performance levels. A study on a comparative review on transformational and transactional leadership in Pakistan by Paracha et al. (2012) found transformational leadership as having the capability to persuade and inspire people so that they contribute towards efficiency, performance and success of a firm. Locally, a study done by Barare & Wambua (2018) to determine the relationship between performance of State Corporations with ethical leadership in Kenya indicated that transformational leadership is associated with progressive change in organizations as well as enhancement of employee performance and satisfaction.

In Kenya, Commercial Banks are responsible for managing money deposited by clients and keeping documents in vaults for safe keeping. Additionally, the Commercial Banks also play a role of creating availability and accessibility of the money to the clients whenever they need such money. This is done through the use of ATMs, agency banking and teller methods. Accordingly, it is true that adopting a transformative leadership can be a powerful tool for the success of Commercial Banks in the country, since transformational leaders influence practices associated with proactive initiative in driving change that can enhance achievement of organizational goals and increase their performance of the firm in general.

1.1.1 Transformational Leadership

Transformational leadership involves a person exhibiting the characteristics of inspiration motivation, intellectual stimulation, idealized influence and individualized consideration. These characteristics in a transformational leader empower and spur their subordinates to accomplish results past their personal interests (Menguc, Auh & Shih, 2017). Erkutlu (2018) posits that a leader with transformational traits inspires and challenges his followers to have a mission and a vision, and to own firm's goals. The leader does urge and inspire subordinates to be articulate in execution of duties, while they take care of them in a very individualized manner. In most cases, such leadership action does translate to workplace productivity and performance. There are also cases where the transformational leaders inspire their teams to perform beyond stated goals and personal ambitions and this is important to business organizations.

Previously, transformational leaders were seen to be less successful within public organizations as compared to private sector corporate entities (Kerandi, 2015). This was deemed so from the understanding that public organizations were relatively bureaucratic with tight control mechanics than private organizations. However, various scholars have demonstrated that leadership and leadership styles possess the same equal significance as far as leadership outcomes are concerned (Mugambi &Wanjohi, 2018). This indirectly asked how transformational leadership can influence organizational performance within the corridors of government service among the developing nations. With transformational leadership, the leader is able to motivate the employees and act as a role model for his subordinates thus inspiring them and raising their interest in the organization (Omondi, 2014).

1.1.2 Performance

According to Mutisya (2015), organization performance is the ability of the firm to produce results in various dimensions (Bernhofen & Brown, 2004).Organization performance is an important dimension of organizations since it determines the level of the firm growth. The firm performance can be measured in different levels including through the consideration of the customer satisfaction levels, employee motivation, product profitability, company profitability as well as through liquidity, and capital structure of the firm (Laitinen, 2002).

Many scholars also argue that measuring performance helps in understanding the company's progress with time (Bowman & Faulkner, 1997). Scholars in support of performance measurement suggest that varied measures need to be used to represent different dimensions of performance; this would offer a comprehensive and balanced

view of the company's performance. Output measures, such as gauging the number of units of services produced, efficiency and productivity measures which include the ratios of output against the costs and service quality measures are some of the performance measurement measures (Porter, 2003). The current study therefore considers both non-financial and financial measures of performance. It will include the non-financial performance measures that include the levels of customer satisfaction as well as employee motivation and financial performance measures such as the profitability, return on assets, as well as total sales growth and return on equity.

1.1.3 Commercial Banks in Kenya

The Kenyan banking sector includes a number of commercial banks that are regulated by the Central bank of Kenya (CBK) (Dang, 2011). As of 2019, there were around forty-four commercial banks in the country, all regulated by CBK. Among the banking system in the country, there are also foreign exchange institutions and over ten microfinance deposit taking institutions. However, it should be noted that each of the commercial banks has a unique leadership and top management plan. Some of the banks have transformational leadership style and this has improved their general performance and success (Boronow et al., 2017).

Currently, there are about forty-four (44) licensed commercial banks in the country and they are all amalgamated under the Kenya Bankers Associations (KBA). However, 31 of these commercial banks are locally owned while the remaining 13 are owned by foreigners. Out of the locally owned financial institutions, the Government of Kenya and other State Corporations have large shareholding in 3 banks; the remaining 27 are commercial banks and one mortgage finance institution (Abu-Rub,

2012). There is also the Housing Finance which lobbies for the sector's interests (Kithitu et al., 2012). Typically, the KBA offers a forum through which issues affecting commercial bank members in the country are addressed (Abu-Rub, 2012). Some of the major commercial banks in the country include the, Cooperative Bank which was founded in 1872, The Kenya Commercial Bank, which was founded in 1896, The Standard Chartered Bank in 1911, Barclays Bank in 1916, Diamond Trust Bank in 1945, Commercial Bank of Africa in 1962 as well as Equity Bank in 1984.

1.2 Research Problem

Transformational leadership plays a significant contribution on how the subordinates perform in their arena of work. This is because the concept of transformational leadership is associated with inspiration, motivation, workers empowerment and creation of a vision that inspire all people in the organization (Menguc, Auh & Shih, 2017). With transformation leadership models, organizations are able to achieve their optimum performance. This has been achieved in a number of public organizations according to a study done by Walumbwa and Hartnell (2011) to establish the correlation between performance and transformational leadership in public organizations across the country. Carter et al. (2013) explain that transformational leadership has been associated with the gains in individual powers and organizational functioning in a variety of firms across the world. The foregoing is consistent with Waldman, Siegel & Javidan (2016) quasi-experimental investigation, which established that while there are possibly several mechanisms for motivating employees, a transformational leadership culture is one of such strategy.

The environment of work is ever changing due to globalization as well as due to technological changes and fierce business competition. All these dynamics affect even the local workers behaviors and attitudes of employees in Kenya. Within the Banking Sector in Kenya, several challenges and conditions have led to dwindling performance and low success levels. Problems associated with corruption and lack of motivated work force has been blamed on the underperformance of the commercial banks within the country. Lack of skills, poor leadership as well as inadequate resources has been indicated as some of the key challenges facing the majority of Commercial Banks in the country. A close analysis of the operations of the various Commercial Banks in the country also reveals that poor infrastructure and low implementation of policies are key factors influencing low performance levels. However, efforts have been made to improve operations including adoption of digital banking systems and providing structural changes in the top leadership (Paracha et al., 2012). Despite such efforts, the general performance of several commercial banks in the country is still low compared to other countries across the globe.

According to Menguc, Auh and Shih (2017), most of the studies on transformational leadership have emphasized on testing the relationship between employee motivation and transformational leadership within public sectors. This means that no known studies about the influence of transformational leadership on revenue collection among public sector have been carried out in many countries globally. In Kenya, various studies have made a compelling argument for the need of enhancing performance within the public sector through the adoption of transformation leadership. For example, a study by Mugambi and Wanjohi (2018) focused on the impact of transformational leadership in

Meru County while Odede (2013) studied the business re-engineering and leadership among public organizations in Kenya.

From the analysis of these previous studies, one can argue that the previous researches have not sufficiently focused on the existing linkages between performance of commercial bank in Kenya and transformational leadership. Therefore, this study filled the apparent knowledge gaps in understanding the relationship between transformational and performance of banks in Kenya by answering the question; what is the relationship between performance of commercial bank in Kenya and transformation leadership?

1.3 Research Objective

The objective of the study was to underscore relation between transformational leadership and performance within the commercial banks operating in Kenya.

1.4 Value of the Study

The study would benefit many stakeholders. The first beneficiaries will be the top managers of various banks within the country and they would use the study findings to promote transformational leadership and their performance levels in general. The top management within different Commercial Banks in the country would also use the study findings to improve transformational leadership and ensure high and stable performance in all their activities and programs. It is expected that the adoption of effective transformational leadership would help to improve efficiency in their major operations and activities.

The study results would also benefit other stakeholders such as the policy makers as well as researchers and scholars from different parts of the world. The study findings would help policy makers and various government agencies to adopt appropriate transformational leadership policies that can help performance of organizations including banks in the country. The policy makers would also use the study results to adopt appropriate measures that would help coordinate future revenue collection in the country through adoption of proper and stable transformational leadership policies and programs. This is important since it would result into effective measures leading to increased socio-economic development of the country.

Finally, the study results would be important to researchers and scholars from various regions around the globe. This is because the future researchers would use the study findings as their reference points and starting points for their further studies. Future academicians and students would also use this study for references and would form the basis for their discussions. This study would also provide a source of reference available for future studies on similar or related topics touching on transformational leadership together with performance of firms around the globe.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The primary objective of this section is to provide effective analysis of theoretical and empirical literature which relates to the topic of study; which is on the determining correlation between transformational leadership with firm performance. The section also included the analysis of the past and current literature related to the link between transformational leadership and firm performance around the world. The section also included literature review on the types of transformational leadership strategies that have been used by various companies across the globe.

The section specifically discusses the upper echelons theory and the theory of transformational leadership. The study provided analysis of these theories to help guide the study findings and results. Additionally, this segment also included analysis of the knowledge gaps and empirical review of the past studies associated with the study topic.

2.2 Theoretical Foundations of the Study

A theoretical foundation involves an analysis of the underlying theory of the study and this is an important aspect in academic research. A theoretical framework is a mix of related theoretical ideas with a set of propositions anchored on a general set of assumptions regarding a given phenomenon (Kombo & Tromp, 2016). Kombo and Tromp (2006) explain that theories offer examples and indicators of what needs to be incorporated in the framework; theories are therefore utilized as a guide to the work and plays an important role in interpreting the findings. The researcher in this study used two

different but complementary theories; the upper echelons theory and the theory of transformational leadership. The next section presents a brief discussion of the two theories.

2.2.1 Upper Echelons Theory

There is sufficient literature to deem as acceptable the idea that an organization's fortunes mirror its top management, whose perception of its collective environment determine to a substantial extent how the organization will in turn respond to the environment. Hence firms are exactly what their leaders envisage, sight, believe and perceive. This idea is the linchpin of the corpus by Hambrick and Mason (1984) in the name of Upper Echelons Theory (UET). UET has aroused considerable interest in strategic management and is one of the most researched theories in the realm of organization and management (Sadeghinejad, 2013). It encapsulates the ideas of Donald Hambrick and Phyllis Mason as first published in 1984 in the journal of Academic Management Review (Hambrick & Mason, 1984). Upper echelons theory argues that organizational outcomes have partial proportionality to the top-level management team's managerial background characteristics.

The theory attempts to unpack the correlation between organizational outcomes and managerial background traits. Herman and Smith, (2015) contend by noting that the characteristics of the top management team, including previous experiences, values and personalities have a say on how they make their strategic and organization decisions. Precisely, the theory holds that the perception of the top managers about their corporate terrain influences the choices they strategically make, which subsequently has an impact on organizational performance. Hambrick and Mason (1984) disquisition had three

ambitions intended to provide three main perks to scholars, human resource practitioners tasked with head-hunting upper level executives and strategists.

For the scholars and in the context of this study, this theory may lend substantial impetus to anticipate organizational fortunes and outcomes than the current theories do. The theory has found use in the human resources field as a foundation for hiring new top managers. Additionally, it can be used to predict the future strategic decisions of CEOs by analyzing competitors and other listed companies. The ternary ambition of the corpus was hinged on how the upper echelon traits may become echoed in the organizational outcomes, secondly, review discourse on upper echelons viewpoint and, provide platform for the analysis of the nexus between managerial background and organizational outcomes.

2.2.2 Transformational Theory of Leadership

According to this theory, the transformational leadership refers to a leader's ability to motivate and influence his followers to work beyond their personal goals for the benefit of a company (Yamak, Nielsen & Escribá-Esteve, 2014). According to Bass (2005), transformational leadership emanate from strong uncompromised personal values which appeals to the followers' sense of moral obligation and values. Transformational leaders are therefore characterized as articulate, visionary and assured and able to imbue confidence in their followers; they do not merely hold transactional leadership skills because their actions and plans motivate others in the company to pull towards meeting the firm's goals and objectives leading to a high performance (Erkutlu, 2018).

It is also assumed that these leaders depict high levels charisma, intellectual stimulation, individualized consideration as well as inspirational motivation. These leaders have the ability to model others behavior through respect and faith and they can transmit the group mission to others in a humble way. Additionally, these leaders depict high moral standard and believe in ethical conduct in almost all the organization activities and programs (Carpenter & Geletkanycz, 2004).

In this study, the theory would be used to promote and determine the transformation leadership influence on company's performance. This is because it has been noted that transformational leaders inspire through motivation so that the workers become motivated and committed to the organization (Carter et al., 2013). They value team spirit; communicate high expectations to followers as well as providing proper coaching and teaching to their subordinates (Kerandi, 2015). This leadership challenges not only their own beliefs and values, but also those of the organization they lead and this is how they help to encourage their followers to increase creativity at work and enhance the performance capacity of their workers leading to high productivity in the firm (Barare & Wambua, 2018).

2.3 Empirical Studies and Knowledge Gaps

Several past studies done on the topic has provided a number of mixed reactions. For Instance, Indrianawati (2010) looked into the effect of leadership on revenue performance at East Jawa in Indonesia. His study made use of leadership traits related to transformational leadership and established that it significantly led to increased revenue in the country. However, the study researched only probed the single construct of transformation leadership based on the items developed by varied traits such as on

matters dealing with fairness, transparency, accountability, openness and charisma. However, it was noted that these traits are also applicable for employee perspective because they help employees in combating employee misconducts such as corruption while motivating them to work hard towards the achievement of the organization goals (Barare, & Wambua, 2018).

Another study done by the Malaysian Local Government Authorities noted that transformational leadership lead to good governance and helps in solving employee corruption in the Malaysian Local Government Authorities (Olson, Parayitam & Twigg, 2016). Therefore, this literature review shows that transformational leadership is critical factor in enhancing good governance and promoting worker performance through the more cooperative, humanistic and charismatic leader behaviors that results into valuable employees' characteristics. Firms with transformational leadership in most instances have good corporate governance practices.

Therefore, the efficiency of transformational leadership depends on the leader's individual traits that serve as role model and plays a critical role in influencing the employees towards the adoption of such traits (Kerandi, 2015). Transformed employees would at the end possess competency thus enhancing quality delivery devoid of unethical misconduct because such employees become answerable and responsible without for self-interest but for the interest of their jobs. This is important towards the promotion of the firm performance.

According to a study by Erkutlu (2018), leadership is the process of imbuing an influence on others to not only understand but also to agree on the next course of action and how the action should be taken as well as the facilitation of individual and collective efforts aimed at accomplishing the organization's goals. This means that a good leader will promote and have the ability to motivate and influence others so that they can contribute towards the company's success. However, this study fails to consider transformation leadership effects on workers' productivity.

Moreover, in the context of strategic management, a study done by Menguc, Auh and Shih (2017) found out that leadership was an art and process in which leaders influenced followers to willingly and enthusiastically strive to achieve the firm's mission. Leadership is thus an important contributor to the success of organizations. All the levels of an organization have some form of leadership. Dent (2015) identifies three levels of leadership; the team leadership which operates at a team level whose sole responsibility is the achievement of the goals for which a group of people who work together are grouped. The study also indicated that there is also the operational leadership whose role is that of a functional area within a firm where it manages the human capital and contributes to decisions in their specific special areas. Finally, transformational leadership that is responsible for diverse organizational functions as well as responsible for making major decisions in the organization (Dent, 2015). However, this study mainly focused on the organizations within the United States of America and failed to consider the application of transformational leadership in other contexts.

A study by Wilderom, Berg and Wiersma (2012) on how charismatic leadership as well as organizational culture affect commercial banks in Netherlands where the researchers collected data from one thousand two hundred and fourteen staff from forty-six bank branches and assessed areas such as charismatic initiative, work culture and philosophy, and aspects of authoritarian management. The outcome of that study pointed out that charismatic leadership increased organizational financial returns among the commercial banks surveyed. Leaders who exhibit idealized influence make followers endeared to them, and that followers like to be identified with them (Feinberg, Ostroff & Burke, 2015). However, this research was conducted in the Netherlands and it may not be applicable within the Kenyan context.

From the analysis of these past studies, it is clear that there is need of a study to underscore the relationship between transformational leadership and performance of banking institutions. Thus, this study filled this gap by looking into and evaluating the links between the two variables. This research provides a clear relationship between study variables thus filling the knowledge gaps identified in the literature and empirical review.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section aims to describe how the study was conducted in line with the core objectives. It involves highlighting the research design used in addition to the data collection techniques and data analysis mechanisms used in the analysis of the study findings.

3.2 Research Design

A cross-sectional survey design was used in this study. According to Copper (2000), a cross sectional research design deals with finding out what and when and how it was used in this study based on multiple cases involved. The use of such a research design is highly appropriate since the survey has great reliability, low on cost and convenient for a large population. The researcher adopted cross sectional design to get data from commercial banks in the country.

Accordingly, the study utilized a cross sectional study design because it involves analyzing data collected across a whole population to provide an in-depth view of that population within a specific point in time. The design also provided multiple data within a short time and in a cost-effective manner.

3.3 Target Population and Sample

This study targeted the commercial banks in Kenya. The majority of the commercial banks in Kenya are based in Nairobi and the researcher gathered data from their headquarters. According to the CBK, the registered commercial banks in Kenya are 44 and 12 are microfinance banks.

According to Copper (2000), sample is a small portion of the population under study where data collection is done which is then analyzed and conclusions made about the overall population where the sample is drawn. This study adopted random sampling method and the researcher collected data from 14 Commercial Banks, which is about 30% of the total population. Saunders, Lewis & Thornhill (2009) noted that 10% - 50% is an ideal sample for data collection. Thus, to promote the study validity the researcher focused on 14 Commercial Banks in the Country (Watson, 2001).

3.4 Data Collection

The researcher made use of both primary and secondary data during the study. A secondary data can be defined as the information that had been previously gathered for other purposes or for topics related to the research study. Various publications including the annual documents from the banks provided the source of secondary data for this study. The secondary data was derived from the financial records of the institutions and issues related to the key determinants of financial performance of the banks. The information was collected from the websites and other online data bases of the Commercial banks in Kenya. The secondary data included information such as company records, financial statements as well as the financial reports which were obtained from the CBK's website.

However, the primary data was gathered from the field through questionnaires, using semi structured questions to evaluate and determine the relationship between performance and transformational leadership. The questionnaire was divided into sections with section A containing general information; section B contained questions investigating transformational leadership strategies and section C contained information on the performance of the commercial banks.

3.5 Data Analysis

In this study, the researcher used both qualitative and quantitative methods to analyze the data. The researcher determined the relationship between bank performances with transformational leadership. Specifically, the researcher investigated the correlation between the transformational leadership plans and both financial and non-financial performance. This helped to understand how strategies inherent in transformational leader influence the performance of the Bank. The objectives of the study guided the researcher in data analysis.

The researcher adopted qualitative techniques in analyzing the qualitative data. Qualitative research method involves exploration of a concept with the intention of providing more understanding of a topic or just for the purpose of creating awareness of an existing concept. After data collection, the researcher analyzed the data and this was presented in different charts, tables and graphs for easier understanding.

Evidently, a model was used to determine how the transformational leadership impacts the Commercial Banks' performance in Kenya. The model is shown below:

$$Y = a + bx_1 + bx_2 + bx_3 + bx_4 + \dots + c + B_3$$

Where Y = Performance of Commercial Banks

X_1 = intellectual stimulation and inspirational motivation

X_2 = individualized considerations and idealized influence

X_3 = clear vision, promote optimism and inclusion models

X_4 = mentorship and innovation models

X_5 = participatory and democratic leadership style

X_6 = shared vision

B_3 = Error Factors

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section illustrates the findings as well as the analysis of the findings in this study as directed by the research methodology. This section reviews a number of sample characteristics such as the participant response rate, sample demographics and characteristics analysis as well as other related factors before looking at the descriptive statistics in addition to the correlation analysis of the data to establish how transformational leadership affect the bank performance. The primary data for the study was obtained from the branch managers and operations managers because they held the most relevant information for our study, having an in-depth knowledge of the bank operations and performance.

4.2 The Participants Response Rate Level

This study sampled a total of 30 Commercial Banks within Nairobi whose board of directors, bank managers and operations managers of both middle-level and senior-level were issued with questionnaires, and thus the total number of respondents conducted was 60. However, only 54 respondents filled and submitted the questionnaires in good time. This translates into a 90% response rate; this response rate was within the acceptable margins hence a good number to work with. Most of the respondents who never filled their questionnaires cited commitment and lack of time for the exercise. Figure 4.1 shows the rate of participant response.

Participant Response Rate

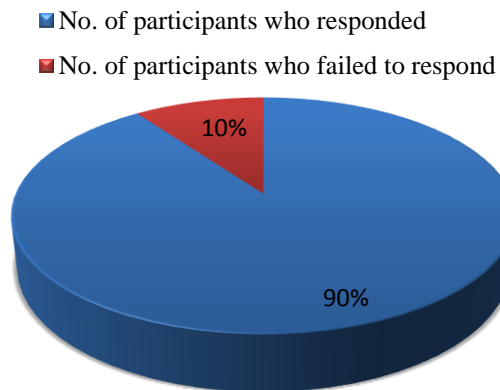


Figure 4.1: Participant Response Rate

4.3 Background Information and Demographic Characteristics

The respondents' demographic background was checked to ascertain the suitability of such respondents for this study. Some of the demographic characteristics that were taken into consideration include age, experience in the job, level of education and gender

4.3.1 Education level and Work Experience of the Participants

The education levels as well as the work experience of the respondents were captured since such characteristics affect the leadership styles and also determine the quality and quantity of information that a respondent possesses. Out of the 54 respondents, 32 had a Masters' degree, 18 had a Bachelors' degree and the remaining 4 had a Diploma. Table 4.1 gives a summary of the education levels of the participants, the frequency and the percentages.

Table 4.1: A Summary of the Level of Education of the Respondents

Level of Education	Frequency	Percentage
Master's Degree	32	59.3
Bachelor's Degree	18	33.3
Diploma	4	7.4
Total	54	100

The work experience of the respondents was determined by the number of years that the respondents had taken holding the management position. For convenience, the experience durations were clustered into a range of 5 years. Out of the 54 respondents, only 1 had a work experience of less than 5 years, 7 had an experience of 6 - 10 years, 32 had an experience of 11 - 15 while the remaining 14 had more than 15 years of experience in the senior positions. Table 4.2 gives a summary of the work experience of the participants.

Table 4.2: A Summary of the Work Experience of the Respondents

Experience years	Frequency	Percentage
0-5 years	1	1.8
6-10 years	7	13.0
11-15 years	32	59.3
Over 15 years	14	25.9
Total	54	100

4.3.2 Gender of Respondents

Out of the participants, 20 were female while 34 were male (translating into 37% and 63% respectively) implying that the number of male in the top leadership positions in the Commercial Banks in Kenya is almost double that of female. Figure 4.2 gives the percentage of the respondents in terms of gender.

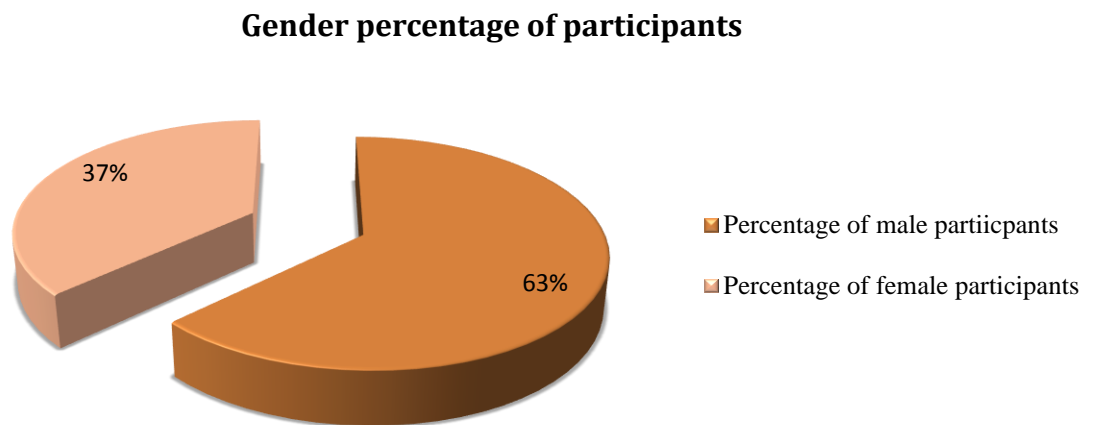


Figure 4.2: The Gender Percentage of Participants

4.3.3 Age of Respondents

It was found out that most (78%) of the managers in the Kenyan Commercial Banks were aged above 36 years, only 3% of managers were below 26 years while 19% were aged between 26 to 35. This indicates that the age of the managers correlates with the experience of the managers; the more the age the higher the experience of the manager.

These statistics are given in table 4.3.

Table 4.3: Age of the Respondents

Age	Frequency	Percentage
Above 36 years	42	78
26-35	10	19
Below 26	2	3
Total	54	100

4.4 Transformational Leadership Strategies Adopted by the Commercial Banks

The inquiry sought to identify the transformational leadership strategies used by the respondents or their banks. It was from the responses that 30% of the respondents or banks represented by the respondents amalgamated idealized influence and intellectual stimulation strategies. 12% used the model of inspirational motivation while the remaining 58% used both inspirational motivation and individualized consideration.

Table 4.4: The Transformational Leadership Strategies adapted by the Commercial Banks

Strategy/Strategy Mix	N	No	%
Individualized consideration and inspirational motivation	54	31	58
Inspirational motivation	54	6	12
Idealized influence and intellectual stimulation	54	17	30

In order to determine the transformational leadership strategies adopted by the banks, leading questions were crafted such that the responses would directly point at the strategy of leadership. Table 4.5 shows the responses with the mean and standard deviation. The expected responses ranged from codes 1-5 which are the extreme possible responses.

Table 4.5: Responses from the respondents

Question	N	Min	Max	Mean	Std. Dev
Your employees know your vision for the company	54	1	5	3.63	1.141
Enable others to think in new ways	54	2	5	3.82	1.166
You help your employees to develop themselves	54	1	5	3.13	1.151
Help your employees build on their capacities	54	1	5	3.3	1.155
Always have alternative plans to achieve objectives	54	1	5	2.89	1.162
Have a highly motivated team	54	1	5	3.96	1.134
Employees admire you.	54	1	5	3.02	1.091
Know your employees individually	54	1	5	3.89	1.142
How close are you to your employees?	54	1	5	2.83	1.165
How often are you consulted with your teams?	54	1	5	3.32	1.232
Are employees comfortable around me?	54	1	5	3.21	1.191
Give ideas that would benefit individual employee	54	1	5	2.96	1.345
Know the weaknesses of each employee	54	1	5	2.88	1.349

4.5 Relationship between Transformation Leadership and Performance of the Commercial Banks

The research aimed at finding the Correlation between transformational leadership with performance in Commercial Banks in Kenya. Therefore, correlation analysis was done to underscore how strategies of transformational leadership affect the performance. Commercial bank performance in this study is measured using Profit before Tax (PBT) for the year 2019 for the commercial banks. The correlation analysis conducted indicated that the named strategies of transformational leadership had a positive correlation with PBT for the 30 commercial banks.

4.5.1 Idealized Influence and Intellectual Stimulation and Organization Performance

The correlation between Idealized Influence and Intellectual Stimulation with organizational performance was measured through the parameters listed.

Table 4.6: Analysis of Idealized Influence and Intellectual Stimulation Attributes of Transformational Leadership

Your employees know your vision for the company	Pearson Correlation	0.563
	Sig. (2-tailed)	0.001
Employees admire you	Pearson Correlation	0.658
	Sig. (2-tailed)	0.002
Always have alternative plans to achieve objectives	Pearson Correlation	0.512
	Sig. (2-tailed)	0.004

4.5.2 Inspirational Motivation and Individualized Considerations and Organization Performance

Likewise, the correlation between Inspirational Motivation and Individualized Considerations with organizational performance was measured through the parameters listed.

Table 4.7: Analysis of Inspirational Motivation and Individualized Considerations attributes of Transformational Leadership

Give ideas that would benefit individual employee	Pearson Correlation	0.765
	Sig. (2-tailed)	0.001
Know your employees individually	Pearson Correlation	0.517
	Sig. (2-tailed)	0.003
Help employees to develop themselves	Pearson Correlation	0.556
	Sig. (2-tailed)	0.003
How often are you consulted with your teams?	Pearson Correlation	0.885
	Sig. (2-tailed)	0.001
Are employees comfortable around me?	Pearson Correlation	0.665
	Sig. (2-tailed)	0.005

4.5.3 The Adoption of Clear Vision, Optimism and Inclusion Models and the Organization Performance

In order to determine whether the top leadership of the banks provided employee inclusion support plans to as well as whether the top leadership shared its vision with employees and built stronger relationship with all stakeholders, leading questions were

crafted such that the responses would directly respond to the first objective of the study. Table 4.8 shows an analysis of the responses obtained.

Table 4.8: The Adoption of Clear Vision, Optimism and Inclusion Models and the Organization Performance

Statement	N	Min	Max	Mean	Std. Dev
The top leadership provides employee inclusion support plans with the employees.	54	1	5	3.316	1.1272
The top leadership shares its vision with employees and build stronger relationship with all stakeholders	54	1	5	4.208	1.1550

4.5.4 The Adoption of Effective Mentorship and Innovation Models and the Organization Performance

In order to determine whether the top leadership promoted mentorship and innovation models in the firm operations, leading questions were crafted such that the responses would directly respond to the main objective of the study. Table 4.9 shows the responses obtained.

Table 4.9: The Adoption of Effective Mentorship and Innovation Models and the Organization Performance

Statement	N	Min	Max	Mean	Std. Dev
The top leadership promoted mentorship and innovation models in the firm operations.	54	1	5	3.641	1.1170

4.5.5 The Adoption of Participatory and Democratic Leadership Style and the Organization Performance

The study aimed at determining whether the top leadership supported participatory and democratic leadership style since these are critical aspects of transformational leadership and the responses would thus be appropriate for main objective of the study. Table 4.10 shows the responses obtained.

Table 4.10: The Adoption of Participatory and Democratic Leadership Style and the Organization Performance

Statement	N	Min	Max	Mean	Std. Dev
The top leadership support participatory and democratic leadership style	54	1	5	3.783	1.1242

4.5.6 The Adoption of Shared Vision Models and the Organization Performance

The study aimed at determining whether the top leadership provided shared vision plans with the employees because this is also a vital aspect of transformational leadership.

Table 4.11 shows an analysis of the responses obtained.

Table 4.11: The Adoption of Shared Vision Models and the Organization Performance

Statement	N	Min	Max	Mean	Std. Dev
The top leadership provides shared vision plans with the employees.	54	1	5	3.996	1.1502

The findings show that most of the participants alluded that the top leadership provided employee inclusion support plans. A mean of 3.316 according to the thumb rule is fairly good and that the respondents agreed with the assertion. Likewise, on the issue of whether the top leadership shared its vision with employees and built stronger relationship with all stakeholders, a mean of 4.205 implies that most of the participants agreed with the assertion. With regard to whether the top leadership promoted mentorship and innovation models in the firm operations, whether the top leadership supported participatory and democratic leadership style or whether the top leadership provided shared vision plans with the employees, the findings indicated that the respondents supported the assertions since the mean scores for all the three questions was above 3.5.

4.6 The Banks Performance

All of the eight variables that were used to determine their relationship with bank performance indicated a positive correlation. Table 4.6 and 4.7 show that Pearson Correlation Coefficient ranged between 0.51 and 0.88 at Sig (2-tailed) greater than 0.001 and less than 0.004. This shows that there exists a higher positive relationship between the four variables with bank performance thus increasing the implementation of transformational leadership styles increases the performance of the banks in terms of profit before tax. Additionally, the banks whose leadership had adopted transformational leadership had exhibited increased performance over time.

4.7 Regression Analysis

A regression analysis was conducted aiming at establishing the relationship between transformational leadership and Commercial Banks' performance in Kenya where the performance of commercial banks is the dependent variable while transformational leadership is the independent variable. The constant term was 0.500 which was statistically significant, $t(91) = 2.333, p < 0.026$. On the other hand, the coefficient of bank performance was 0.821 which was statistically significant, $t(92) = 10.897, p < 0.05$. At $p < 0.05$ the whole regression was statistically significant and the variation in performance explained 89.5 % of the variation with strategies of transformation leadership.

Table 4.12: Regression Analysis

	Co-efficient	Std. Error	T-Ratio	P-Value
Constant	0.500	0.242	2.333	0.026
Bank Performance	0.821	0.076	10.897	0.000
Idealized influence and Intellectual Stimulation	0.767	0.0683	2.118	0.002
Inspirational Motivation and Individualized Considerations	0.814	0.0833	2.515	0.001
R ²	0.81			

4.8 Discussions

Table 4.5 shows the responses obtained from some of the questions posted in the questionnaire which was aimed at measuring the objectives of the study. It is evident that the mean for all the questions was above 2.8 and actually most had a mean of 3.00. This implies that the properties of transformational leadership measured pointed at the fact that transformational leadership was applied in most of the commercial banks within the country. According to the thumb rule, a mean greater than 3 in a range of 1-5 means fairly good.

The correlation analysis conducted made use of only eight variables that would respond to the main objective of the research specifically to underscore the linkage between the variables and the performance of the banking institutions. Table 4.6 and 4.7 show that

Pearson correlation coefficient ranged between 0.5 and 0.8 indicating that the four variables had a positive correlation with the performance of the banks.

The regression model above (Table 4.12) depicts the existence of a strong positive relationship between performance of commercial banks in Kenya and transformational leadership. The findings also showed that the managers who implemented Inspirational Motivation and Individualized Considerations had their companies improve in financial performance that those who concentrated more on intellectual stimulation and idealized influence. However, all the four aspects of transformational leadership had a positive relation with the performance of the Commercial Banks in Kenya at all at a constant = 0.500 and on an $R^2 = 0.81$.

The analysis showed that the data supported the regression model ($Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$). This can be simplified as shown by the model below:

$$\text{Performance} = \text{Constant} + \text{Idealized influence } \beta_1 + \text{Intellectual Stimulation } \beta_2 + \text{Inspirational Motivation } \beta_3 + \text{Individualized Considerations } \beta_4 + 3\epsilon$$

Therefore, it can be concluded that the regression analysis support the hypothesis that the transformational leadership enhances performance of the commercial banks.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This segment gives a summary, a conclusion as well as the recommendations of the inquiry. The summary findings, the conclusions as well as the recommendations are provided here based on the study objective. The recommendations are made basing on the inquiry findings. The segment also provides the limitations of study in addition to the suggestions for future research inquiries.

5.2 Summary of the Study Findings

The intention of this inquiry was to establish link between the variables. The research was guided by the question; *what is the relationship between transformational leadership and performance of commercial banks in Kenya?* Data collection in the study was done using a questionnaire from 14 Commercial Banks Managers in Nairobi. The connecting variables were the strategies of transformational leadership and different performance measures of the banks. The response rate was 90%.

The study revealed that majority of the managers within Commercial Banks in the country have master's degree at 57% and they have worked in the banks for around 11-15 years at 50%. Additionally, the study revealed that majority of the workers within the banks top management are males at 64%. Females only account for 36% of top managements within Commercial Banks in the country. Ages wise, the findings indicate that most of top managers within the banks are above 36 years at 57%.

Analysis of the transformation leadership strategies adopted by the banks indicated that the many of the banks have adopted strategies associated with idealized influence and intellectual stimulation strategies as well as inspirational motivation plans and individualized consideration strategies. Using these strategies, it was founded that the firm employees know their vision and the management enable others to think in new ways. The transformational leadership and management also enable the bank employees to develop themselves, to build on their capacities as well as to feel motivated and inspired. The banks management also supported the use of flexible and alternative plans to in achieving the firm goals and objectives. The individualized leadership style adopted promoted good relationship among the management and the employees. Employees felt comfortable around the managers and they were ready and consulted with the management and this led to quick problem solving and decision making in the firm.

The findings also indicated that the adoption of transformational leadership was directly and positively linked to the performance of the firms. It was noted that adoption of idealized influence and intellectual stimulation plans improved the bank's performance to a large extent. Additionally, the adoption of inspirational motivation and individualized considerations plans also improved the bank's performance since it allowed the management to understand their employees and this motivated the employees to work hard towards achieving of the goals and objectives of the firm. The study likewise established that transformational leadership allowed the management to have clear vision, optimism and inclusion models in the management of the banks.

5.3 Conclusion

The study aimed at establishing the relationship between transformational leadership and performance of commercial banks in Kenya. A positive relationship between transformational leadership and performance of commercial banks in Kenya was established by the study. It is thus concluded that the adoption of transformation leadership strategies such as idealized influence, intellectual stimulation strategies as well as inspirational motivation plans and individualized consideration strategies is directly correlated with the performance of the banking institutions in Kenya.

The research also conclude that transformational leadership style allowed the bank top management to provide their employees with inclusion support plans as well as set shared vision with employees and built stronger relationship with all stakeholders. This resulted into building of a stronger relationship with all stakeholders and adoption of effective mentorship and innovation models in the banks. The study also concludes that the adoption of participatory and democratic leadership style is associated with strong bank's performance. This is because the findings indicated that the banks whose leadership had adopted transformational leadership exhibited increased performance over time. Thus, the study established a strong positive correlation between performance of commercial banks in Kenya and transformational leadership strategies.

5.4 Recommendations for the Study

The findings of the study highlighted above points to the fact that there exists a positive relationship between transformational leadership and general performance of the commercial banks. However, the following recommendations can be made to policy makers, management practice and theory. The suggested plans would help the

stakeholders to adopt effective transformational leadership and improve their performance

5.4.1 Recommendations for the Bank Management

The research recommends that top managers of the commercial banks in the country need to take up effective transformational leadership style in their management programs. This will promote high levels of creativity, flexibility and innovation in major operations of the banks. Additionally, transformational leadership style will allow the management to include employee involvement in major decision-making process in the bank leading to low resistance to changes in major operations. The banks top management should be trained on how to adopt transformational leadership style to improve the bank performance. This is because transformational leadership strategies allow the managers not only to motivate but also to inspire their employees leading to high staff motivation as well as productivity increase in the bank.

5.4.2 Recommendations to Policy Makers

The inquiry confirmed that transformational leadership is associated with high performance. Therefore, it is recommended that policy makers in the country adopt programs associated with transformational leadership policy formulation and implementation to promote performance of organizations. Government agencies should ensure that there are effective policies that will encourage the adoption of transformational leadership framework in different organizations in the country. This will ensure that the organizations in the country are managed based on inspirational motivation of the followers, through constant individualized considerations as well as idealized influence on the followers.

5.4.3 Recommendations for Theory

From the aim of the study, it was established that adoption of the strategies of transformational leadership that include inspirational motivation and through constant individualized consideration as well as idealized influence led to high performance of the studied commercial banks. Therefore, it is theoretically recommended that companies and future researchers conduct studies to determine how different theoretical frameworks of leadership can be used to promote the performance of organizations across the globe.

5.5 Limitations of the Study

The experiences obtained from the study show different limitations noted by the researcher. For example, some respondent had a busy schedule and getting them to fill and return the questionnaire was a big challenge. Additionally, some respondents were not willing to share the banks performance at the beginning. However, the researcher managed to convince them by indicating that the data which was being collected was only meant for academic use. This gave them the surety of the confidentiality of the information collected.

5.6 Suggestions for Further Research

This inquiry was specifically limited to performance of commercial banks in Kenya and transformational leadership. As a result, some of the findings may not be generalized to other sectors. Thus, it is suggested that further studies be done on the different types of leadership such as the effect of transactional leadership style on the performance of commercial banks. Importantly, further research should also determine how transformational leadership promotes customers and staff satisfaction within different organizations in the country.

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

Kindly fill all the questions either by ticking () in the boxes or writing in the spaces provided.

1. Name of firm

Position level in the organization

- a) Board of Director
- b) Senior Management
- c) Middle Level Management
- d) Technical Staff

Age

- a) 20 – 25
- b) 26 – 30
- c) 31 – 35
- d) Above36years

Gender

- a) Male
- b) Female

Highest level of education

- a) Diploma
- b) Bachelor's
- c) Master's
- d) Doctorate
- e) Others (Please specify)___

Years of experience in the Banking industry?

- a) Less than 3 years
- b) 3 – 5 years
- c) 6 – 10 years
- d) More than 10 years

For how long have you worked in this organization?

- a) 0-5 years b) 6-10 years
- c) 11-15 years d) 16 years and above

SECTION B: Transformational Leadership Strategies Adopted by the Bank

Using a scale of 1 - 5, tick the appropriate answer from the alternatives provided.

1 = Strongly Disagree

2 = Disagree

3 = Uncertain

4 = Agree and

5 = Strongly Agree

To what degree do you agree that the bank has adopted the following transformational leadership strategies to gain high performance?

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
The bank top leadership support and depict inspirational motivation.	1	2	3	4	5
The bank top leadership support idealized influence and individualized considerations	1	2	3	4	5
The bank top leadership promote mentorship and innovation models in the firm operations	1	2	3	4	5
The bank top leadership support participatory and democratic leadership style	1	2	3	4	5
The bank top leadership provides shared vision plans with the employees.	1	2	3	4	5
The bank top leadership motivate employees and build stronger relationship with all stakeholders	1	2	3	4	5

SECTION C: Relationship between Transformation Leadership and Performance of the Bank

To what extent has each of the following transformational leadership strategies improved the performance of your Bank.

Statement	Strongly disagree	Disagree	Uncertain	Agree	Strongly agree
Adoption of inspirational motivation and intellectual stimulation has improved the employees and customers satisfaction in the bank	1	2	3	4	5
Adoption of idealized influence and individualized considerations has improved the total sales and productivity in the Bank	1	2	3	4	5
Adoption of clear vision, optimism and inclusion models has improved the achievement of goals in the firm	1	2	3	4	5
Adoption of effective mentorship and innovation models has improved total assets, ROE and ROA in the bank	1	2	3	4	5
Adoption of participatory and democratic leadership style has general performance and success in the Bank	1	2	3	4	5
Adoption of shared vision has improved implementation of programs in the Bank					

In your own opinion, explain how the management of your firm can use transformational leadership style to improve the performance of the Bank

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