LEADERSHIP STYLES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF DEGREE OF THE MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

NOVEMBER, 2014

DECLARATION

This research project is my original work and has not been presented for examination in any other university.

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D61/ 64045/2011

The project has been submitted for examination with my approval as university supervisor.

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ACKNOWLEDGEMENTS

First of all, I am very thankful to God, whose grace has been sufficient for me in every undertaking of my life.

I would like to offer my gratitude to my supervisor Prof. Martin Ogutu for giving me valuable guidelines that enabled me to work efficiently. Without his kind supervision, I would never have had the chance to complete my research work on time.

I would also like to thank my family, especially my husband, Johnson, for their moral support during the entire duration of the course.

I am grateful to my friends and relatives who have supported me in all respects for my study.

DEDICATION

This study is dedicated to my dear mother, Francesca, for setting a strong foundation for my education; to my siblings, Calwin and Brian, for their love and support; and to my husband Johnson for his prayers, understanding, support and patience as well as encouragement during the entire period of my study.

ABSTRACT

The study examined the impact of leadership style on organizational performance in commercial Banks in Kenya. Census survey sampling technique was adopted and relevant primary data was gathered with the aid of a structured questionnaire administered on respondents. Pearson correlation was used to examine the relationship between leadership style dimensions and organizational performance. Findings showed positive and negative correlation between leadership style and organizational performance. It was also found that leadership style behaviors jointly predict organizational performance. The study concluded that six leadership styles behaviors should be employed by the Banks' management in order to perform stronger in the competitive environment.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Leadership, as defined by Northouse (2004), is a process whereby an individual influences a group of individuals to achieve a common goal. Leadership style is the way in which that process is carried out. Performance is the accomplishment and execution of tasks. According to Albrecht (2011), performance is the extent to which an organization achieves a set of pre-defined targets that are unique to its mission. Leadership style is a key determinant of the success or failure of any organization. Numerous literatures on management mention various leadership styles and frameworks such as 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.

Whereas many different leadership theories 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.

A bank is an institution that provides financial services, including issuing money in various forms, receiving deposits of money, lending money and processing transactions and the creating of credit. Commercial banks are financial intermediaries that serve as financial resource mobilization points in the global economy. The role of banks in an economy is paramount because they execute monetary policy and provide means for facilitating payment for goods and services in the domestic and international trade.

1.1.1 Organizational Leadership

Studies on organizational leadership have grown in tandem with the development of large-scale industrialization and during the last century systematic research has also been driven by two world wars. Because of this, there is much debate about leadership and a variety of theoretical frameworks influence the theory of organizations (Albrecht, 2011). Armstrong (2001) defines leadership as influence, power and the legitimate authority acquired by a leader to be able to effectively transform the organization through the direction of human resources, the most important organizational asset, leading to the achievement of desired purpose. This can be done through the articulation of the vision and mission of the organization at every moment, and influence the staff to define their power to share this vision.

Leadership requirement in today's organizations in Kenya's perspective is very important to meet the global business challenges. Schermerhorn, Hunt and Osborn (2000) maintain that leadership is the heart of any organization, because it determines the success or failure of the organization. Mills (2005) observes that without leadership, organizations move too slowly, stagnate, and lose their way. Without leadership a people quickly degenerate into argument and conflict, because they see things in different ways and lean toward different solutions. Leaders help reduce ambiguity and uncertainty in organizations, and therefore leadership helps to point staff in the same direction and harness their efforts jointly to achieve organizational goals.

A leader has to make a commitment to the vision, to the organization, and to the members of the organization. Leadership also involves assuming a considerable amount of responsibility and risk (Mills 2005). According to Etemesi (2012) good leadership entails listening, getting time to understand and being prepared for the unexpected because that is what is expected. Charles Keating (1982) observes that Leadership is service in the sense that it seeks to meet the needs of one or of the group by performing needed functions. Sometime strong directive power is effective leadership such as when a group has lost its sense of direction or purpose. Sometimes the group needs to be encouraged and supported, at other times it may need to be re-oriented.

1.1.2 Firm Performance

Brumbach (1988), as cited in Armstrong (2001), contends that performance refers to both behaviors and results, and adjusting organizational behaviors and actions of work to achieve results or outcomes. Behaviors are outcomes in their own right and reactions to the product of mental and physical effort applied to tasks. Koontz and Donnell (1993) define organizational performance as the ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action.

Performance is a major multidimensional construct aimed to achieve results and has a strong link to strategic goals of an organization (Mwita, 2000). Alam et al (2001) also observe that firm performance is a multidimensional construct that consists of four elements: customer-focused performance, including customer satisfaction, and product or service performance; financial and market performance, including revenue, profits, market position, cash-to-cash cycle time, and earnings per share; human resource performance, including employee satisfaction; and organizational effectiveness, including time to market, level of innovation, and production and supply chain flexibility.

McCloy, Campbell and Cudeck, (1994) as cited in Sheu, Fais and Husna (2012) defined the term performance as those behaviours or actions which are regarded relevant to the goals of the said organization in question. They further argued that performance itself cannot be said to be the outcome itself, consequences or the result of behaviors or action but rather performance can be said it is the action itself. Thus they argued that performance tends to be multidimensional, a situation whereby for any specific-type of job, there tends to be a number of substantive performance components that are distinguished in terms of their inter-correlations and patterns on co-variation with other variables.

Organizational performance can also be used to view how an enterprise is doing in terms of level of profit, market share and product quality in relation to other enterprises in the same industry. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization. Financial performance measures how well a firm is generating value for the owners. It can be measured through various financial measures such as profit after tax, return on assets, return on equity, earnings per share and any market value ration that is generally accepted. Generally, the financial performance of banks and other financial institutions has been measured using a combination of financial ratios analysis, benchmarking, measuring performance against budget or a mix of these methodologies (Ahmad et al, 2011). The financial statements of financial institutions commonly contain a variety of financial ratios designed to give an indication of the corporation's performance. Simply stated, much of the current bank performance literature describes the objective of financial organizations as that of earning acceptable returns and minimizing the risks taken to earn this return (Alam et al, 2011)

1.1.3 Leadership and Firm Performance

Leadership has been at the center of attention for the last two decades, mostly because of its tight interdependence with organizational performance. Successful leadership inspires enthusiasm and commitment, enhancing organization performance. The style of leadership affects performance since performance cannot be achieved in the absence of a leadership that can adapt to the changes and challenges of the environment. Therefore if an organization wants to improve its performance, it is the leadership style that should be analyzed and adapted to new requirements (Popa, 2012).

While in the past the emphasis was placed upon financial performance, nowadays, broader non-financial indices are used to evaluate organizational performance. The link between leadership and firm performance can be measured using the following commonly used performance indices: profitability, market share, flexibility, health and safety, employee satisfaction, customer satisfaction, labour productivity, regulatory compliance, innovation and resource acquisition. It is very important to note that the above list of variables is not exhaustive, and a lot will depend on which view point used as the basis of analysis. Effective leadership means success of the organization.

1.1.4 Commercial Banks in Kenya

The banking industry in Kenya comprises of the Central Bank of Kenya (CBK) as a regulatory authority, commercial banks, non-bank financial institutions, forex bureaus and deposit taking microfinance institutions. Commercial Banks are licensed and regulated pursuant to the provisions of the Banking Act and the Regulations and Prudential Guidelines issued thereunder. They are the dominant players in the Kenyan Banking system and as at 31 December 2013 there were 43 licensed commercial banks and 1 mortgage finance company. Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution (CBK Banking Supervision Report, 2013)

The Kenyan banking sector registered improved performance in 2013 notwithstanding the marginal economic growth. The sector registered a 15.9% growth in total net assets and 13.5% growth in customer deposits in December 2013 compared to the same period in 2012. The overall financial performance of banks in Kenya in the last two decade has been improving. However, this doesn't mean that all banks are profitable, there are banks declaring losses (Oloo, 2010). The determinants of bank performances can be classified into bank specific (internal) and macroeconomic (external) factors (Al-Tamimi, 2010; Aburime, 2005). These are stochastic variables that determine the output. Internal factors are individual bank characteristics which affect the banks performance. These factors are basically influenced by internal decisions of management and their leadership at large. The external factors are sector-wide factors which are beyond the control of the company and affect the profitability of banks.

Commercial banks play a significant role in the economic growth of countries. Through their intermediation function banks play a vital role in the efficient allocation of resources of countries by mobilizing resources for productive activities. They transfer funds from those who don't have productive use of it to those with productive venture. Good bank performance rewards the shareholders with sufficient return for their investment. On the other hand, poor banking performance has a negative repercussion on the economic growth and development. Poor performance can lead to runs, failures and crises. Banking crisis could entail financial crisis which in turn brings the economic meltdown as happened in USA in 2007 (Marshall 2009). That is why governments regulate the banking sector through their central banks to foster a sound and healthy banking system which avoid banking crisis and protect the depositors and the economy (Heffernan, 1996; Shekhar and Shekhar, 2007) According to Meyer, Botha (2000) as cited by Akinlabi (2012) fast changing and increasingly complex business environment like banking sector requires visionary leadership, and leaders who are willing to learn, experiment and influence organizational change.

1.2 Research Problem

Effective leadership in an organization is very important for continued prosperity, commercial banks notwithstanding. 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 and dynamic business environment requires leadership that can enable both the people and the organization to adapt and be successful.

Empirical studies into the direct links between leadership and performance have been lacking, inconclusive or empirically suspect. A notable exception is the detailed study of the ‘Effect of Leadership Styles on Organizational Performance at State Corporations in Kenya’ by Koech (2012). Although a number of studies have been conducted on bank performance, and on leadership strategies in Kenyan banks, no detailed study on leadership styles and performance of commercial banks has been encountered so far. Wafubwa (2013) in his study entitled ‘Factors Influencing Performance of Commercial Banks in Kenya: A Case of the Kenya Commercial Bank, Bungoma County’ outlines leadership as one of the factors that influence of performance of commercial banks. The limited nature of research findings in this area suggests the need to investigate further the nature of the relationship between leadership and performance of commercial banks. This study is a step in this direction.

This study seeks identify the leadership styles adopted by the managers, and to examine its effect on workers’ performance, which invariably translates to organizational performance. On the basis of this background, questions that arise are in this study are: What leadership styles are adopted by in commercial banks in Kenya? Does leadership have a significant influence on the performance of commercial bank?

1.3 Research Objectives

The objectives of this study are as follows:

1. To determine the leadership styles adopted by commercial banks in Kenya.
2. To determine whether the performance of a commercial bank depends on the leadership style adopted.

1.4 Value of the Study

This study will add more knowledge to an existing body of literature on the concept of leadership and performance. The study will shed more light on the relationship between leadership styles adopted by the leaders of banking institutions and the performance of the institutions.

The outcome of the study will be useful to the scholars, academicians and researchers in validating previous research, facilitating theory building in the area of leadership style and organizational performance. This will also be a source of reference material for future studies to those who undertake research study in similar topic. This study can also be used as a basis of further research and also in academics in the area of leadership and performance.

The findings from this study may further be used by policy makers in the banking industry to design policies that promote responsible leadership for performance. Senior bank executives can use outcomes from the study to make critical examination of existing leadership styles in their organizations which may assist them work towards improvement of the present leadership strategies.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The review of literature in this section covers theoretical framework and empirical studies that have been carried out in the area of leadership and performance in banking sector.

2.2 Theoretical Foundation

Globally, leadership has become the most widely studied aspect of organizational behavior and a number of theories have emerged focusing on the strategies, traits, styles and the situational approach to leadership. As a result of ever-growing interest in the field of leadership, behavioral scientists and sociologists began to analyze the possible consequences of leadership behaviors and the variables that are used to predict the leader's behaviors. Since it is the duty of leaders to get things done through the coordinated efforts of others, it is assumed therefore that leadership skills and strategies will translate into the subordinates' performance (Rollinson et. al, 2001).

2.2.1 Traits and Behavioral Theory

The trait perspective was one of the earliest theories of leadership in the 1940's which assumes that great leaders are born with distinguished personality traits that make them better suited for leadership and make them different from other people or their followers. Stogdill's (1948) survey of the leadership literature came up with the most comprehensive list of traits. Stogdill's observation that leadership situations vary significantly and place different demands on leaders, destroyed trait theory, leading to the emergence of situational and behavioral approaches.

Behavioral theories of leadership state that it is the behavior 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. Behavior theories examine 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 behavior namely: employee-centered and production-centered (Hersey and Blanchard, 1988).

2.2.2 Situational and Contingency Theory

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. Contingency theories are based on the assumption that the relationship between leadership style and organizational outcomes is moderated by situational factors related to the environment, and therefore the outcomes cannot be predicted by leadership style, unless the situational variables are known (Cheng and Chan, 2002)

Three models exist in this leadership approach: Fiedler's (1967) co-worker theory, House's (1971) path-goal theory, and Heresy 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.

2.2.3 Transformational and Transactional Theory

Over the past twenty five years, a large body of research has emerged around transformational – transactional leadership theory. Transactional theories focus on the role of supervision, organization and group performance and they base leadership on a system of rewards and punishments for meeting particular objectives. The type of transaction, whether a reward or discipline, depends on the performance of the employee. Bass (1985) as cited by Chan (2005) theorized the transactional leaders appeal to the subordinates' self-interests. Transactional leaders attempt to meet the current needs of their subordinates through bargaining and exchanging. Both leaders and followers focus on achieving the negotiated performance level.

Transformational theories focus upon the connections formed between leaders and followers. Transformational leadership is the leader's ability to motivate followers to rise above their own personal goals for the greater good of the organization (Bass, 1985, 1996 as cited by Murphy & Drodge, 2004). Bass (1985) theorized the transformational style of leadership comes from deeply held personal values which cannot be negotiated and appeals to the subordinates' sense of moral obligation and values. Bass declared there were four types of transformational leadership behavior, namely idealized influence (charisma), inspirational motivation, individualized consideration, and intellectual stimulation.

2.3 Leadership Styles

Every leader in every organization performs certain roles/tasks for the smooth operation of the organization and improvement of organizational performance. The manner in which the leader performs these roles and directs the affairs of the organization is referred to as his or her leadership style. Leadership style therefore is the way a leader leads (Oyetunyi, 2006) Leadership styles are as many and diverse as there are definitions and concepts of leadership. Different researchers and academicians alike have come up with different leadership styles.

Leadership theories present various leadership styles including charismatic leadership, transactional leadership, and transformational leadership. Tannenbanum and Schmidt (1958) also identify four widely accepted and used leadership styles: democratic, autocratic, dictatorial, and laissez faire leadership. One of the most prominent formats for classifying and studying leadership includes three leadership styles – laissez-faire (non-leadership), transactional (based on reward system and punishments) and transformational (based on inspiration and behavioral charisma) (Bass and Avolio, 1993). Below is a brief examination of some common leadership style dimensions listed above and their potential impact on organizational performance.

2.3.1 Transactional Leadership

Effective transactional leadership style is characterized by transactions or exchanges – the promise of reward for good performance, and discipline for poor performance (Bass, Avolio, Jung and Berson, 2003) Transactional leadership, present in many businesses, may help clarify everyone's roles and responsibilities, and because team members are judged on performance, ambitious people motivated by external rewards often thrive. Some of its measures can also de-motivate employees. For example, itdoesn't offer much in terms of inspiration, to motivate people to go beyond the basics; therefore employees might get complacent and develop a tendency to achieve minimal expectations that only would help them avoid penalties (Bass, 1990). Howell and Avolio (1993) observe that if managers do not effectively follow-up on the contingent reward promises, they display behavioral inconsistency and are therefore viewed as ineffective leaders. Bass, et al. (2003) mention that transactional leaders are counterproductive in an evolving work environment. Likewise, Howell and Avolio's (1993) study suggests that transactional leadership style is negatively related to unit performance.

2.3.2 Transformational Leadership

Transformational leadership style focuses on the development of value system of employees, their motivational level and moralities with the development of their skills (Ismail et al., 2009). It basically helps follower's achieve their goals working in the organizational setting; it encourages followers to be expressive and adaptive to new and improved practices and changes in the environment (Bass, 1994). Bass further explains that such leadership motivates followers; it moves people beyond self-interests and allows them to focus on the good of the group or society. Transformational leaders are able to articulate an appealing vision of the future by communicating ideologies and leading through example. This leadership tends to improve the team's morale and motivates the team members (Stewart, 2006). The study conducted by Howell and Avolio (1993) concluded that the degree of transformational leadership (charisma, intellectual stimulation, and individual consideration) in a branch manager had a direct impact on the business unit's performance (Judge & Piccolo, 2004, Howell and Avolio (1993)).

2.3.3 Bureaucratic 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). This leadership style is appropriate for work involving serious safety risks or with large sums of money such as banks or when managing employees who perform routine tasks. This style is much less effective in teams and organizations that rely on flexibility, creativity, or innovation.

2.3.4 Democratic Leadership

Tannenbanum 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.

2.3.5 Autocratic Leadership

Autocratic leaders are classic “do as I say” types. Typically, these leaders are inexperienced with leadership thrust upon them in the form of a new position or assignment that involves people management. Autocratic leaders retain for themselves the decision- making rights. They can damage an organization irreparably as they force their ‘followers’ to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like. There is no shared vision and little motivation beyond coercion. Commitment, creativity and innovation are typically eliminated by autocratic leadership. In fact, most followers of autocratic leaders can be described as biding their time, waiting for the inevitable failure this leadership produces and the removal of the leader that follows (Michael, 2010).

2.3.6 Charismatic Leadership

Charismatic leadership style is considered to be the most successful and valued trait-driven leadership style. Charismatic leaders have a vision, as well as a personality that motivates followers to execute that vision. This style provides fertile ground for creativity and innovation, and is often highly motivational. However, a problem arises when they leave the organization – it can appear rudderless and without direction for long because charismatic leaders rarely develop replacements. Their leadership is based upon strength of personality. As a result, charismatic leadership usually eliminates other competing, strong personalities (Michael, 2010)

2.3.7 Laissez-faire Leadership

The manager delegates almost all authority and control to subordinates. There is no person of authority in the organization. The manager leads the organization indirectly, he/she does not make decisions; rather he/she abides by popular decisions. There is no setting of goals and objectives by the manager. Tasks are done the way the manager thinks it should be done, but he/she gets involved on request and this may lead to the digression from broad organizational policy. Thus, this style of leadership may be effective with well-motivated and experienced employees (Dubrin, 1998:111), but could lead to failure when subordinates are deceptive, unreliable and untrustworthy. Laissez-faire style is associated with managers with dissatisfaction, unproductiveness and ineffectiveness (Deluga, 1992).

2.4 Organizational Performance

The concept of organizational performance is one of the most important dependent variable of interests for researchers concerned with just about any area of management (Richard et al., 2008). Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its many meanings. For this reason, there isn't a universally accepted definition of this concept. In the 1950s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Tannenbaum, 1957). Performance evaluation during this time was focused on work, people and organizational structure.

Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Lusthaus & Adrien, 1998 after Campbell, 1970). In this context, profit became one of the many indicators of performance.

Performance is organizational ability in producing something related to desired targets (Kaithen, 2002). Performance is work results achieved by someone or a group of people in an organization, in accordance with their respective authority and responsibility to reach the organizational goal legally, without breaking laws, and in accordance with moral and ethics (Prawirosentono, 2000). The style of leadership affects performance since performance cannot be achieved in the absence of a leadership that can adapt to the changes and challenges of the environment, that knows how to motivate the employees and that encourages them to take more ownership for their work.

Madrid et al. (2007) opine that high performing firms are able to generate a variety of company and society benefits like attracting resources, wealth creation and jobs generation. They further observe that an accurate measure of performance can provide reliable insight into what affects performance and how firms can develop good strategies, arrange resources, meet consumer expectations and compete. Profit is the ultimate goal of commercial banks. All the strategies designed and activities performed thereof are meant to realize this grand objective. However, this does not mean that commercial banks have no other goals. Commercial banks could also have additional social and economic goals (Alexandru et al., 2008)

2.4.1 Key Measurements of Organizational Performance

Performance is a multidimensional construct and therefore multiple measures of performance should be used (Lumpkin and Dess, 1996). Growth has been argued as an essential element to the attainment of sustainable competitive advantages and profitability (Markman and Gartner, 2002) and it is hard to associate sustained growth without profitability (Fitzsimmonset al., 2005) Profitability is also another important measure of organizational performance that must be considered as it is unlikely that firm growth can be sustained without profit contributions (Fitzsimmons et al 2005).

Furnham (2002) assert that the appropriate measurement outcome from leadership quality is effectiveness (reflecting the leader's efficacy in achieving organizational outcomes, objectives, goals and subordinates‟ needs in their job). Therefore, the measure of organizational performance in this study is represented by the degree to which a company achieves its business objectives.

2.5 Leadership Style and Organizational Performance

The body of research on the relationship between leadership style and organization performance continues to grow. Most research show that leadership style has a significant relation with organizational performance, and different leadership styles may have a positive correlation or negative correlation with the organizational performance, depending on the variables used by researchers (Fu-Jin et al., 2010).

McGrath and MacMillan (2000) are of the view that there is a significant relationship between leadership styles adopted by managers and performance of the organizations. Effective leadership style is seen as a potent source of management development and sustained competitive advantage, leadership style helps organization to achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring that employees have the resources needed to get the job done. Sun (2002) compared leadership style with the leadership performance in schools and enterprises, and found that leadership style had a significantly positive correlation with the organizational performance in both schools and enterprises.

Fu-Jin et al. (2010) opine that when executives use their leadership style to demonstrate concern, care and respect for employees, it would increase interest of employees in their work and enable them to put up better performance, thereby affecting their job satisfaction positively. Understanding the effects of leadership on performance is also important because leadership is viewed by some researchers as one of the key driving forces for improving a firm's performance. Effective leadership is seen as a potent source of management development and sustained competitive advantage for organizational performance improvement (Avolio, 1999; Lado, Boyd and Wright, 1992; Rowe, 2001)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The chapter considers in detail the methods that were used to collect primary or secondary data required in the study. In this chapter, the researcher discusses the research design and population size used. The researcher also discusses how collected data was analyzed giving details of any models or programmes that were used in analysis with reasons as to why these particular models or programmes were applied.

3.2 Research Design

This research study adopted a census survey which involves a complete enumeration of all items in the 'population'. It can be presumed that in census survey, when all items are covered, no element of chance is left and highest accuracy is obtained. Research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher will do from writing the hypothesis and its operational implications to the final analysis of data (Kothari, 2004).

3.3 Study Population

The target population for the study was all the fourty three commercial banks operating in Kenya (See Appendix III) and the study covered all the forty three banks. No sampling was done due to the small size of the population. Data was collected from the branch managers and operations managers of these banks.

3.4 Data Collection

Data for this study was collected using a structured self-complete research questionnaire which was distributed to the target population and collected after one week. Primary data was collected from the key informants above as well as secondary data from using books journals and magazines.

The questionnaire used in this study was divided into three sections. The first section covered the demographic information of the population, such as designation of the respondent, years of experience in current position, period the respondent has worked in the bank, size of the bank and the ownership structure of the bank. The second section was a modified version of the Multifactor Leadership Questionnaire (MLQ) developed by Avolio and Bass (1995). The Multifactor Leadership Questionnaire (MLQ 5x-short) leader form is utilized as an instrument to measure or study leadership styles. Construct items from the MLQ were modified to fit the specific context of this study. The third section of the questionnaire covered the performance of the bank.

3.5 Data Analysis

All the interview questionnaires were collected and inspected to ensure that they are complete and consistent. Independent variables with various factors were identified and measured using a five-point scale. To discover the leadership styles that influence organizational performance, correlation analysis was employed. Correlation can be explained as a single number which describes the extent of relationship between two variables. The relationship between these two variables is described through a single value, which is the coefficient.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the analysis and findings of the study as set out in the research methodology. The analysis is divided into two major sections; the descriptive statistics and correlation analysis to establish how the leadership styles affect the bank performance. Data was collected from the senior management team of the banks who included the branch managers and operations managers. These respondents were specifically chosen since they are in charge of the branches and exercise leadership of over staff in the branch, and they fact that they have in-depth knowledge of the bank.

4.2 Descriptive Statistics for Respondents

This section presents summary statistics on the first of the questionnaire: Background Information of the respondents and leadership styles. This section presents percentages, mean, median and standard deviation.

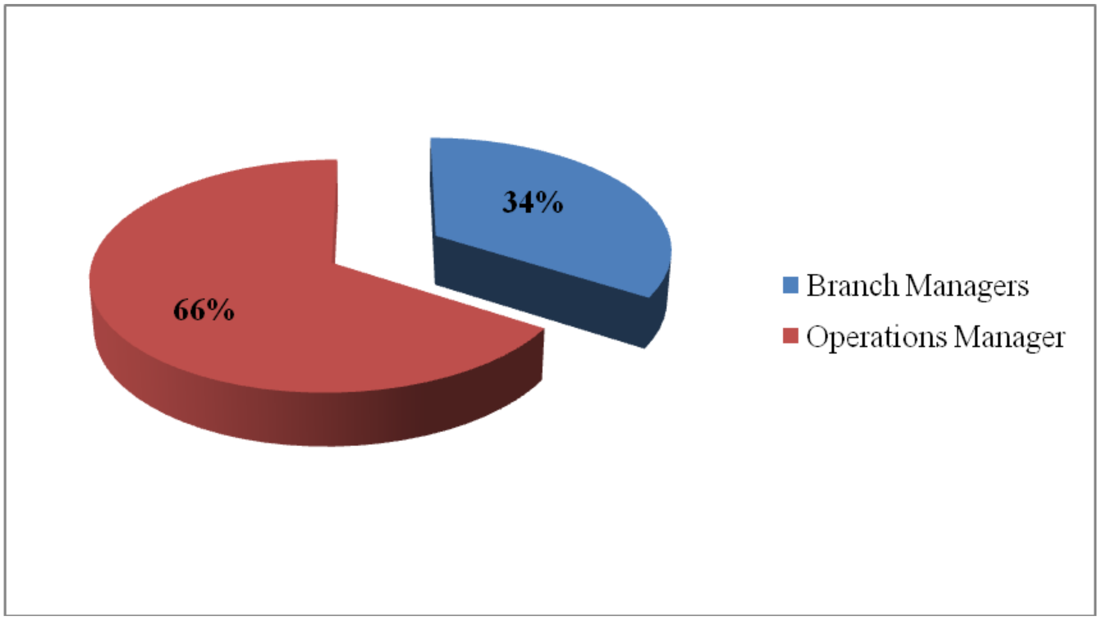
4.2.1 Background Information

Background information in the questionnaire captured the respondents' job title, years worked in the bank and years in current position as well as the size of the bank and ownership of the bank.

4.2.1.1 Leadership Positions

Majority of the respondents were branch managers representing 66% of the respondents and the remaining 34% were operations managers. Figure 4.1 provides the summary on the titles of leadership positions.

Figure 4.1 Leadership Positions of Respondents



4.2.1.2 Years of working in the bank

The minimum number of years worked by the respondents was 3 years while the maximum numbers of years worked in the bank was 15 years with an average of 11 working years. The years worked in the current job by the respondents ranged between 2 and 9 years with the average working years being about 5.98 years. This ranges in years ensured that the respondents were knowledgeable on the questions and had experience in the banking industry.

Table 4.1 provides the summary on years worked and years at current job title.

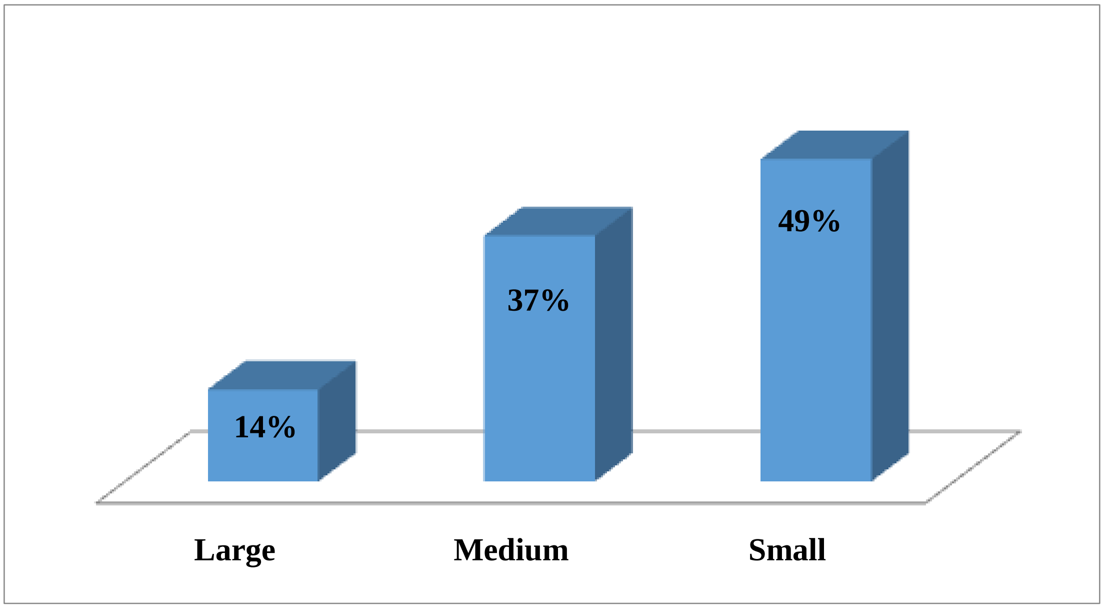
Table 4.1 Years Worked and Years at Current Job

	N	Minimum	Maximum	Mean	Std. Deviation
Years worked in the bank	43	3	15	11.1	3.269
Years worked current job	43	2	9	5.98	2.029
Valid N (list wise)	43				

4.2.1.3 Size of the Bank

The bank size is based on the classification provided by respondents. Figure 4.2 provides the summary of the size of the banks from the respondents.

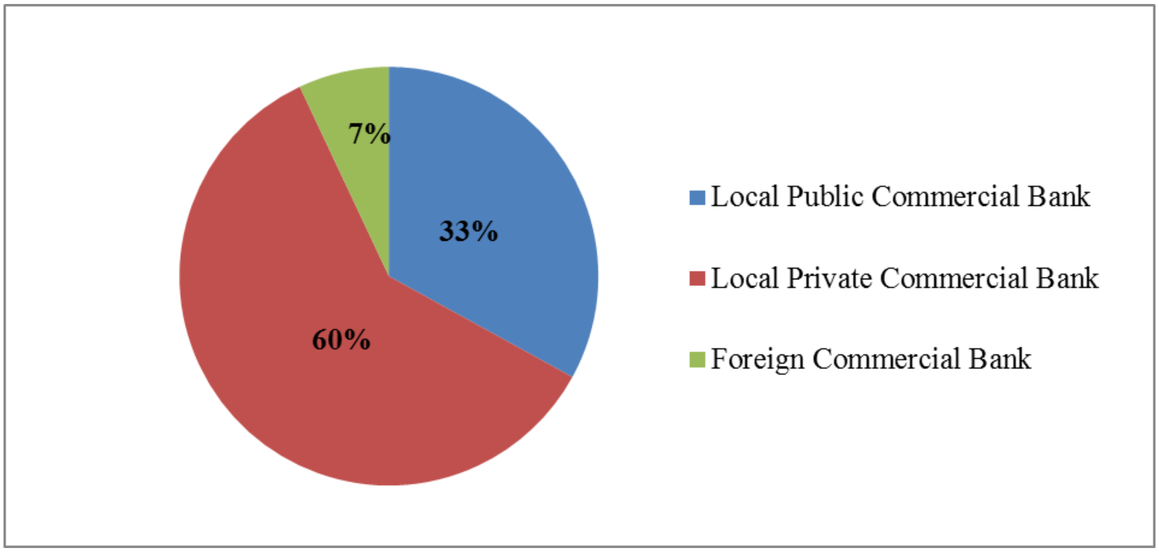
Figure 4.2 Size of Commercial Bank



4.2.1.4 Ownership of Commercial Bank

The Population consisted of all the 43 banks which are categorized into three different forms of ownership. The majority of the banks are local private commercial banks at 60%. Figure 4.3 provides the summary on the ownership commercial banks.

Figure 4.3 Ownership of Commercial Banks



4.2.2 Leadership Styles

A summary on leadership was done to establish the distribution of the responses provided on leadership style. During the data entry the coding was changed to enable analysis, in this case the codes were as follows: 1= Not at all, 2= once in a while, 3= sometimes, 4= fairly often and 5=frequently. For all the questions, the minimum, maximum, mean and standard deviation were computed.

From Table 4.2, it can be seen that generally the mean for all responses ranged between 2.6 and 3.42.

Table 4.2 Leadership Styles Behaviors

	N	Min	Max	Mean	Std. Dev
Make others feel good to be around me	43	1	5	3.23	1.151
Enable others to think in new ways	43	2	5	3.42	1.159
Help others develop themselves	43	1	5	2.93	1.121
Guide to be rewarded for their work	43	1	5	3.3	1.145
Satisfied when standards are met	43	1	5	3.09	1.428
Content with working in the same ways always	43	1	5	2.93	1.121
Have complete faith in me.	43	1	5	3.12	0.981
Provide appealing images	43	1	5	3.09	1.342
Provide others with new ways	43	1	5	2.93	1.183
Let others know how what I think	43	1	5	3.3	1.245
Provide recognition or rewards	43	1	5	2.88	1.096
As long as things are working, no change	43	1	5	2.6	1.072
Others want to do is OK with me	43	1	5	3.19	1.277
Proud to be associated with me	43	1	5	2.81	1.314
Help others find meaning in their work	43	1	5	3.05	1.022
Get others to rethink ideas	43	1	5	2.7	1.245
Give personal attention	43	1	5	2.93	1.223
Call attention to what others can get	43	1	5	3.3	1.145
Set the standards	43	1	5	2.79	1.355
Ask no more above essential	43	1	5	3.14	0.99

From the Table 4.2 we are able to measure our first objective of the leadership styles used by the commercial banks. By use of rule of thumb, where the mean is higher than 3 we conclude fairly often that leadership style is being applied in the commercial banks and where the mean is below 3 we conclude that the leadership style is rarely applied in the commercial banks. Therefore, Table 4.2 clearly shows the leadership styles applicable and the ones that are not applicable.

4.3 Correlation Analysis

Correlation analysis was conducted to be in line with objective of the study of determining the leadership styles adopted by commercial banks and whether these styles affect the performance. In this study commercial bank performance is measured using Profit Before Tax (PBT) for the year 2013 for all commercial bank and the leadership style is measured using the response on Leadership styles.

By conducting correlation analysis, the following results were observed to have relationship with PBT for the 43 commercial banks. The six variables all indicated positive correlation with PBT. In other words, banks whose Branch managers or manager operations have frequently applied these six variables have recorded improved PBT.

Table 4.3 provides the summary on the correlation of the six variables and PBT. This correlation analysis clearly answers our second objective whether the bank performance depends on leadership styles adopted by commercial banks. The study has found out there is high relationship between these six leadership styles and increased PBT. These six styles are significant at 5% level of significance.

We can conclude that if high performance is attributed to this six leadership styles in Table 4.3.

Table 4.3 Analysis of Leadership Styles Attributes

Help others develop themselves	Pearson Correlation	0.555
	Sig. (2-tailed)	0.000
Guide to be rewarded for their work	Pearson Correlation	0.447
	Sig. (2-tailed)	0.003
Satisfied when others meet agreed-upon standards	Pearson Correlation	0.329
	Sig. (2-tailed)	0.031
Provide recognition or rewards	Pearson Correlation	0.655
	Sig. (2-tailed)	0.001
Tell others the standards they have to know to carry out their work	Pearson Correlation	0.365
	Sig. (2-tailed)	0.016
Ask no more of others than what is absolutely essential	Pearson Correlation	0.417
	Sig. (2-tailed)	0.005

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the findings, conclusion, recommendations and areas for further research. The chapter is divided into these three sections.

5.2 Summary

The objective of the study was to determine leadership styles adopted by commercial banks as well as the effect of these leadership styles on the performance of the 43 commercial banks in Kenya. Primary Data was collected from 43 commercial banks branch managers and operations managers in Nairobi. The response rate was a 100% with nil missing values noted for the questionnaires. The dependent variable for measure was financial performance of commercial banks measured by the Profit before Tax as at end of year 2013. The independent variables were measured by the various specific questions on the self-administered questionnaire. The data analysis revealed there is a strong correlation between the financial performance of the commercial banks and six of the independent variable measured. A Pearson correlation coefficient was computed and tested for significance. The study revealed that improvement in financial performance of commercial banks could be accounted for by six leadership styles which are: managers helping their develop themselves, managers guiding their staff on how to their work inorder to be rewarded, managers being satisfied with their staff if they meet the agreed upon target, staff receive recognisition and rewards for performance, setting the standards of working to their staff members and managers not asking for more information than what is essentially required.

From the findings of p-value, which is the proxy measure of the level of significance, the study found that there was a strong positive relationship between the six independent variables and the performance of commercial banks.This therefore means that the these leadership styles can be used as a predictor variables to predict future performance of commercial banks.The major finding of the study depicts the main objective of the study was met i.e. there exist a strong relationship between financial performance and the leadership styles adopted by the commercial banks.

5.3 Conclusion

In conclusion, the some variables under study have been found to be significant and as such they can be used for prediction purposes. The major finding of the study is that there was a strong positive relationship between managers helping their staff develop themselves, managers guiding their staff on how to do their work in order to be rewarded, managers being satisfied with their staff if they meet the agreed upon targets, staff receiving recognition and rewards for performance, setting the standards of working to their staff members and managers not asking for more information than what is essentially required, thus the study concludes that leadership styles positively affects the financial performance of commercial banks in Kenya.

It's important to note that the good leadership styles and right adoptions are necessary for provision of teamwork and ensuring everyone understands their roles within the bank. It means therefore that staff who are properly motivate and guided by the management to work to achieve the desired results leads to increased efficiency, reduction of costs and improved performance.

5.4 Recommendations

Based on the findings above, the following are the recommendations that can be made for managerial policy and managerial practice

5.4.1 Recommendations for Managerial Practice

Leadership style behaviors that have a strong positive relationship with organizational performance should be put into practice. It is therefore recommended that managers should: help others develop themselves; Guide to be rewarded for their work; be satisfied when others meet agreed-upon standards; provide recognition or rewards; tell others the standards they have to know to carry out their work and ask no more of others than what is absolutely essential

5.4.2 Recommendations for Managerial Policy

Managers should consider formulating and implementing effective reward & recognition systems. Managerial policies formulated should call for greater involvement in guiding subordinates to achieve organizational goals.

5.5 Limitations of the Study

This study had various limitations. Some of the branch managers and operations managers were too busy to take time off and respond to the questionnaires even after several requests. Because of the sensitive nature of information handled by commercial banks, some interviewees were not very cooperative in giving out information.

Although it would have been useful to include more managers from each bank to attain a broader understanding of the relationship between leadership and performance of commercial banks in Kenya, in this study it was not possible due to inadequate resources. Consequently, only one questionnaire was administered to each of the 43 commercial banks.

Another limitation was the scarcity of recent literature relating to the relationship between leadership and performance of commercial banks in the Kenyan context. Most of the recent literature that was accessible was from western countries, which was not always relevant to the banking sector in Kenya.

The study was only limited to commercial banks in Kenya which is a sub sector in the financial sector and thus may not reflect the same position in other areas such as insurance, deposit taking micro finance institutions, Sacco's etc. Study area was only limited to specific aspects of leadership styles as function of PBT. These aspects are therefore not the only determinants of performance of commercial bank. The study only considered one financial year period and as such, only the aspects of one

5.6 Suggestions for Further Research

The limitations have therefore left room for further research in a more expanded scope by covering the entire financial industry and narrowing into specific sectors as opposed to all the sectors.

A longer time period can be considered in future so to establish the trend in order to ensure consistency. A bank which has been in operation over a longer period of time tends to give a clear picture of the study variable as opposed to short term operation.

More aspects of leadership quality could be studied in future including leadership style and return on Assets, leadership style and Return on investment etc in order to obtain in totality the relationship with performance.

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APPENDICES

Appendix I: Introduction Letter

August 2014

The ABC Manager

Bank XYZ

P.O Box 123F - 00100

Nairobi

Dear Sir/ Madam,

Data Collection

I am a student undertaking a Master's degree in Business Administration at the University of Nairobi. I am carrying out a research on "Leadership Styles and Performance of Commercial Bank in Kenya".

You have been selected to form part of the study respondents. This is to kindly request you to respond to the interview I will conduct. The information you provide will be used solely for academic purposes and will be treated with utmost confidence.

A copy of the final report will be availed to you upon request. Your assistance will be highly appreciated.

Yours truly,

Cindy Leparleen	Prof. Martin Ogutu
Researcher	Supervisor

Appendix II: Questionnaire

QUESTIONNAIRE

This questionnaire sets to establish the leadership style adopted by commercial banks in Kenya and the effect of the leadership styles on the performance of the commercial banks. Information collected will be exclusively for academic purposes and will be confidential. Your valued assistance in completing this questionnaire will be highly appreciated.

Section A: General information

Please tick appropriately in the spaces provided.

1. What is the title of your position in the bank……………………
2. How many years have you been in the current in position…………
3. For how long have you been working for this Bank……………..
4. What is the size of your bank?

   Large [ ]

   Medium [ ]

   Small [ ]

5. What is the ownership structure of the bank

   Local Private [ ]

   Local Public [ ]

   Foreign [ ]

Section B: Multifactor Leadership Questionnaire (MLQ)

Please answer all items in this answer sheet by ticking appropriately in the spaces provided. If an item is irrelevant, or you are unsure or do not know the answer, please leave it blank.

Use the following rating scale:

Not at all	Once in a while	Sometimes	Fairly often	Frequently, if not always
0	1	2	3	4

I make others feel good to be around me.	[0] [1] [2] [3] [4]
I express with a few simple words what we could and should do.	[0] [1] [2] [3] [4]
I enable others to think about old problems in new ways.	[0] [1] [2] [3] [4]
I help others develop themselves.	[0] [1] [2] [3] [4]
I tell others what to do if they want to be rewarded for their work.	[0] [1] [2] [3] [4]
I am satisfied when others meet agreed-upon standards.	[0] [1] [2] [3] [4]
I am content to let others continue working in the same ways always.	[0] [1] [2] [3] [4]
Others have complete faith in me.	[0] [1] [2] [3] [4]
I provide appealing images of what we can do.	[0] [1] [2] [3] [4]
I provide others with new ways of looking at puzzling things.	[0] [1] [2] [3] [4]
I let others know how I think they are doing.	[0] [1] [2] [3] [4]
I provide recognition or rewards when others reach their goals.	[0] [1] [2] [3] [4]
As long as things are working, I do not try to change anything.	[0] [1] [2] [3] [4]
Whatever others want to do is OK with me.	[0] [1] [2] [3] [4]
Others are proud to be associated with me.	[0] [1] [2] [3] [4]
I help others find meaning in their work.	[0] [1] [2] [3] [4]
I get others to rethink ideas that they had never questioned before.	[0] [1] [2] [3] [4]
I give personal attention to others who seem rejected.	[0] [1] [2] [3] [4]

I call attention to what others can get for what they accomplish.	[0] [1] [2] [3] [4]
I tell others the standards they have to know to carry out their work.	[0] [1] [2] [3] [4]
I ask no more of others than what is absolutely essential.	[0] [1] [2] [3] [4]

Section C: Bank Performance

What was the profit before tax for the year 2013 Kshs.(M) …………………………

What was the value return on assets (ROA) for the year 2013?...............................

Thank you Very Much!

Appendix III: List of Commercial Banks in Kenya

1. African Banking Corporation Ltd.
2. Chase Bank (K) Ltd
3. Commercial Bank of Africa Ltd
4. Consolidated Bank of Kenya Ltd
5. Co-operative Bank of Kenya Ltd
6. Credit Bank Ltd
7. Development Bank of Kenya Ltd
8. Diamond Trust Bank Kenya Ltd
9. Equatorial Commercial Bank Ltd
10. Equity Bank Ltd
11. Family Bank Limited
12. Fidelity Commercial Bank Ltd
13. Fina Bank Ltd
14. First community Bank Limited
15. Giro Commercial Bank Ltd
16. Guardian Bank Ltd
17. I & M Bank Ltd
18. Jamii Bora Bank Limited
19. Kenya Commercial Bank Ltd
20. K-Rep Bank Ltd
21. National Bank of Kenya Ltd
22. NIC Bank Ltd

23. Oriental Commercial Bank Ltd
24. Paramount Universal Bank Ltd
25. Prime Bank Ltd
26. Victoria Commercial Bank Ltd
27. Trans-National Bank Ltd
28. Imperial Bank Ltd
29. Bank of Africa Kenya Ltd
30. Bank of Baroda (K) Ltd
31. Bank of India
32. Barclays Bank of Kenya Ltd
33. CFC Stanbic Bank Ltd
34. Charter House bank Ltd
35. Citibank N.A Kenya
36. Dubai Bank Kenya Ltd
37. Ecobank Kenya Ltd
38. Gulf African Bank Limited
39. Habib Bank A.G Zurich
40. Habib Bank Ltd
41. Middle East Bank (K) Ltd
42. Standard Chartered Bank Kenya Ltd
43. UBA Kenya Bank Limited

Source: Central Bank of Kenya 2014.