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Effect of Leadership Styles on the Performance of Microfinance Institutions in Nairobi, Kenya

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ABSTRACT
The leadership behavior, traits and styles have been of topical importance in many organizations due to the ever changing nature of technologies as well as the growth of globalization which has transformed the expectations and behaviors of people within an organization. This study sought to investigate the effects of leadership styles on the performance of microfinance institutions in Nairobi County, Kenya. The objectives of this study were to identify the leadership styles adopted by managers within microfinance institutions, to examine the effects of leadership styles on the performance of microfinance institutions and to identify the relationship between leadership styles and performance of microfinance institutions. A descriptive research design was used where samples were obtained using random sampling technique. Data was collected using questionnaires. The study found that, the democratic leader was the most preferred leadership style. The style did not increase employee turnover and but it increased employee productivity. Transformational leadership also did not increase employee turnover but Laissez-faire leadership increased employee turnover. Transactional leadership affected employee productivity. A majority of the respondents believed that leadership style played a role performance of the organization. Democratic leadership stood out as the dominant style, followed by transformational leadership then autocratic leadership. The study, therefore, concluded that leadership styles have an effect on performance at microfinance institution. This study recommends that most managers in the micro-finance institutions should adopt transformational leadership in order to ensure staff retention, enhanced employee satisfaction and increased productivity.
Keywords: Leadership styles, Performance, Microfinance Institutions

INTRODUCTION

The observation of leadership behavior, traits and styles has been a topic of concern for many organizations over the years due to the ever changing nature of technologies as well as the growth of globalization which has transformed the expectations and behaviors of people within an organization. Glantz (2002) states that, successful companies today look for knowledgeable workers who are highly qualified and who can use their capabilities to improve the performance of their organization. However, such workers need leadership that will give the enabling environment in which to excel.

The concept of leadership and leadership style may differ from one person to another and will depend on the situation. The term 'leadership' has been widely used in politics, academics, social work and in business management (Messick & Kramer, 2004). Yukl (1994) defines leadership as the process of influencing followers to achieve a set goal. Leadership style can be defined as the manner and approach of providing direction, implementing plans and motivating people (Glantz, 2002).

Organizational performance relates to an organization ability to attain its goals by using resources in an efficient and effective manner (Daft, 2000). It is the achievement of organizations goals in pursuit of business strategies that lead to sustainable competitive advantages (Mitonga-Monga, et al., 2011). It is therefore, evidence of the output of members of an organization measured in terms of revenue, profit, growth, development and expansion of the organization.

According to Yukl (1994), leaders affect organational performance because they influence employees' attitudes, motivation, and behavior. Stoner and Gilbert (2001) have also noted that leadership is important to an organization because it binds subordinates to work together towards a common goal. This means that effective leadership provides the building block for organizational performance and is absolutely essential for the survival and growth of every organization. Effective leadership is the extent to which a leader constantly and progressively leads and directs his or her followers; towards organizational performance. Therefore, the leadership style of a leader greatly impacts on the organizational performance (Shamir, et al., 2006).

Leadership and Leadership styles

Leadership is the process of influencing others to commit their full potential towards achieving a value added or shared vision with both passion and integrity (Jeremy, et al., 2012). Jeremy, et al. further state that it is the strength of the influence that motivates each team member to voluntary co-operate with each other to achieve the objectives set by the leader. Successful organizations are the result of effective leadership but also of organizational culture. The relationship between the employee and the leader as well as the quality of the employees' performance will be influenced by the leadership style adopted by the leader (Aditya, 2007). Leadership is therefore a crucial management skill; meaning that an effective leader should be able to encourage a group of people towards a common goal. Thus, Glantz (2002) emphasizes the need for a manager to find his leadership style.

Leadership style is the manner and approach of providing direction, implementing plans and motivating people (Jeremy, et al., 2012). The following leadership styles have been identified: transactional, laissez-faire, authoritarian, democratic and transformational (Lewin, et al., 1939). Transactional leadership style is whereby leaders focus mainly on the physical and the security needs of subordinates. The relationship that evolves between the leader and the follower is based on bargaining exchange or reward systems (Kouzes & Posner, 2002).

Kouzes, J. M., & Posner, B. Z. (1995). The leadership challenge: how to keep getting extraordinary things done in organizations. California: Jossey- Bass

Laissez-faire style of leadership is passive and disengaged, exerting little influence. A leader using this style will either not intervene in the work affairs of subordinates or may completely avoid responsibilities as a superior and is unlikely to put in effort to build a relationship with them (Maria, 2014). An authoritarian leadership style, is also referred to as autocratic leadership style, is one where the leader directs group activity through unilateral decision making and personal control (Kouzes & Posner, 2002). A democratic leadership style is one involving group members in decision making processes. It is also known as participative leadership, is a type of leadership style in which members of the group take a more participative role in the decision-making process (Kouzes & Posner, 2002). According to Geib and Swenson, transformational leadership is a leadership style that seeks positive transformations in the followers and through the strategy and structure of the organization achieves the desired changes (Geib & Swenson, 2013).

Micro Finance Institutions in Kenya

Christen (1997, p. 17) defines microfinance as 'the means of providing a variety of financial services to the poor based on market driven and commercial approaches'. These financial services include the provision of savings, money transfers, payments, remittances, and insurance products (Christen, 1997). In the past two decades, microfinance has received considerable worldwide attention and has been presented as the 'magic bullet' towards fighting global poverty especially in developing countries all over the world. According to Ngambi, et al. (2010), countries such as India, Nigeria, and South Africa have close to more than 50% of all low income households covered by some form of microfinance product.

In Kenya, Micro Finance Institutions (MFI) were pioneered by Non-Governmental Organizations (NGOs) in collaboration with the government. According to Mutua (2006) the government aided the development of MFIs by providing a policy framework and platform for donor support. This explains why micro finance industry in Kenya is one of the fastest growing sector of the economy (Mutua, 2006). Despite the growing number of MFIs, their outreach is constrained, especially in rural areas, because of their limited resource base and lack of institutional capacity to provide a wide range of financial services (Government of Kenya , 2004). Mwaniki (2006) states that MFI outreach is mostly developed through group-based programmes, which have limited capacity for financial resources and, even though, commercial banks have a stronger resource base and wider outreach, they lack expertise in micro finance lending. This is because the focus micro finance lending is towards the informal economy.

According Mwaniki (2006) there are many challenges that affect the performance of MFIs in Kenya. Ngambi, et al. (2010), observe that the major challenge facing the performance of MFIs in Kenya is that there are too many policy makers, which affect the make decision making processes. This also makes it difficult for employees to interpret clearly the organizations direction, objectives and goals. This means that MFIs require effective leadership (Mutua, 2006).

Several studies have shown that organizations performance is a function of the organization's leadership style and behavior (Chen & Barnes, 2006). This is because leadership styles affect administrative and managerial roles which includes the extent to which strategic goals are communicated and shared by each employee. Previous studies have also shown that leadership style will have a direct effect on customer satisfaction, staff satisfaction and financial performance. However, the effects of leadership style on an organizations performance in general has not yet been well studied. House and Aditya (1997) have criticized leadership studies for focusing excessively on superior to subordinate relationships while excluding organizational and environmental variables as well as all the other functions that leaders perform. Fenwick and Gayle (2008) have indicates that most findings are inconclusive and difficult to interpret.

This study, therefore, seeks to examine the effects of leadership styles on organization performance, with a focus on microfinance institutions within Nairobi, thus contributing to the growing literature and knowledge within the area of study. The purpose of this study was to determine the effects of leadership styles on the performance of microfinance institutions within Nairobi County. The objectives of the study were to identify the leadership styles adopted by managers within the microfinance industry in Nairobi, establish the effects of leadership styles on the performance of microfinance institutions in Nairobi and determine the relationship between leadership styles and organizational performance in microfinance institutions in Nairobi.

METHODOLOGY

Descriptive research design was used for the study because it determines and reports the way things are and was appropriate because it is concerned with clearly defined problems with definite objectives (Mugenda & Mugenda, 2003). The total population in this study was the employees of microfinance institutions (MFIs) licensed and regulated by the Central Bank of Kenya (CBK). There were 11 micro finance institutions in Kenya regulated by CBK, with a total of 637 employees. The target population of this study was 207 employees who worked for microfinance institutions in Nairobi's Central Business District (CBD). The reason for this was because MFIs around CBD are the busiest and make larger profits and faced stiffer competition compared to MFIs outside the CBD (Kamaru, 2014). Stratified random sampling technique was used to ensure that every category of employees was included in the sample. Primary data was collected using semi-structured questionnaires.

RESULTS AND DISCUSSION

Response rate

Out of the 207 questionnaires distributed questionnaires, 154 were filled and returned, hence recording a response rate of 74.4%, which is, according to Mugenda and Mugenda (2003), adequate for data analysis.

Leadership style(s) applied in the institutions

Democratic leader

A majority of the respondents (67.4%) agreed that their leader worked with the members of staff as a team (Table 1). When asked whether leadership positions were given to employees in accordance with the principle of efficiency and equality of opportunity, 52.3% of the respondents disagreed. This indicates that democratic leadership style is not fully adopted in MFIs in Nairobi. Bhatti, et al. (2012), state that although democratic leaders often play a huge role in building team work and motivation amongst employees, the style is not often applied by many managers in financial institutions as they require fast decision making which would not be the case if a democratic form of leadership was used.

Autocratic Leader

About 47.8% of the respondents said that their leaders acted without consulting them, 32 respondents (69.6%), said that their leaders employed the method of 'threat and pressure' to motivate employees (Table 1). These findings imply that autocratic leadership style is applied by managers within microfinance institutions in Nairobi. Kocher, et al. (2009) stated that due to the competitive environment in microfinances and other banking institutions, autocratic leaders are more likely to be prominent as they tend to make decisions without consulting members in the institution so as to reduce time used in decision making process.

Transactional Leader

A majority of respondents (60.9%), indicated that their leader provided consistent coaching support to prevent setbacks and stalls in productivity, 67.4% indicated that their leaders were objective and task driven aiming at performance improvement (Table 1). This implied that transactional leadership style was applied by managers within microfinance institutions in Nairobi. A study by Obiwuru, et al. (2011) identified a transactional leader as a highly influential individual who actively monitors and coaches employees' towards meeting the goals and objectives of an organization so as to archive the company's performance requirements. This style of leadership is, therefore, applicable to financial institutions that require faster decision making.

Laissez Faire Leader

Most of the respondents (67.4%) said that their leaders did not provide employees with complete freedom to make decisions. On whether employees were expected to solve problems on their own, 52.2% agreed (Table 1). This indicates that the Laissez-Faire leadership style applied only to a low extent within microfinance institutions in Nairobi. Bergen and Bressler (2014) indicated that Laissez faire leadership failed to work in many micro financial institutions because employees in such sectors have been cultured to execute decisions and not make decisions.

Transformational Leader

Majority (63%) of the respondents said that their leader mentored and empowered employees to achieve their full potential (Table 1). Asked whether their leader was considered a visionary who set goals for the organization and developed plans to achieve them, 65.2% answered in the affirmative. This implies that transformational leadership style was applied by managers within microfinance institutions in Nairobi. A study by Kocher, et al. (2009) concluded that organizations in the micro finance industry tended to prefer transformational leadership styles because they encouraged, mentored and supported employees to willingly see beyond their self-interests and focus more on aligning their own goals with the overall goals and objectives of the organization.

Table 1: Leadership styles

		Yes	No
Democratic	Administrator works with the members and the personnel in the spirit of one team	67.4%	32.6%
	Leadership positions are distributed to employees in accordance with the principle of efficiency and equality of opportunity	47.8%	52.2%
Autocratic leader	Leaders act without consulting any one	47.9%	52.1%
	Leaders in your organization employ the method of 'threat and pressure' to motivate employees	69.6%	30.4%
Transactional	Leader provides consistent coaching support to prevent setbacks and stalls in productivity	60.9%	39.1%
	Leader is objective and task driven aiming at performance improvement	67.4%	32.6%
Laissez Faire	Leaders provide employees with complete freedom to make decisions	32.6%	67.4%
	Employees are expected to solve problems on their own	52.2%	47.8%
Transformational	Leader mentors and empowers employees to achieve their full potential	63.0%	37.0%
	Leader is considered a visionary who sets goals for the organization and develops plans to achieve them	65.2%	34.8%

Effect of Leadership Styles on Performance

Democratic leadership on employee turnover and productivity

In determining whether democratic leadership increased employee turnover, 39.1% disagreed 15.2% strongly disagreed, 37.0% agreed, while 8.7% strongly agreed. This implied that democratic leadership styles does not increase employee turnover (Table 2). However, on whether Democratic leadership increased Employee productivity, 17.4% disagreed 6.5%, strongly disagreed, 50.0% agreed, 6.5% were neutral while 19.6% strongly agreed. This implied that democratic leadership affected employee productivity. The findings agree with the studies by Pearce and Robinson (2007) who stated that democratic leaders typically increase job satisfaction, employee retention and skill development for the entire staff. Leaders who use democratic approaches to solving problems tend to benefit from involving stakeholders in identifying the issues and finding solutions to their complex problems. This helps them get things done through others and assuring them of a continued support in future.

Autocratic leadership on employee turnover and productivity

The study sought to establish whether autocratic leadership increased Employee turnover, 32.6% disagreed, 41.3% agreed, 13.0% strongly agreed, 6.5% strongly disagreed and 6.5% were neutral (Table 2). In determining whether autocratic leadership increased employee productivity, 21.7% disagreed, 8.7% strongly disagreed, 47.8% agreed, 8.7% were neutral and 10.9% strongly agreed. These findings showed that autocratic leadership increased employee turnover and productivity. These findings agree with the studies by Guo (2011) who stated that autocratic leadership usually leads to high levels of absenteeism, employee turnover and employee productivity except in cases where there is routine work or unskilled labor.

Transactional Leadership and employee turnover and productivity

In determining whether the transactional leadership increases employee turnover, 37.0% disagreed, 21.7%, strongly disagreed, 28.3%, agreed, 6.5% were neutral while 6.5% strongly agreed (Table 2). This implies that transactional leadership styles did not increase employee turnover. However, on whether transactional leadership increased employee productivity, 15.2% disagreed, 4.3% strongly disagreed, 47.8% agreed, 10.9% were neutral while 21.7% strongly agreed. This implied that transactional leadership affected employee productivity. These findings agree with Okoth, et al. (2013) who stated that transactional leadership concerned the style of leadership where the leader makes work behavior more instrumental to followers to reach their own existing goals while concurrently contributing to the goals of the organization therefore increasing their productivity levels.

Laissez-faire Leadership employee turnover and productivity

The study sought to establish whether Laissez-faire leadership increased employee turnover, 19.6% disagreed, 41.3% agreed, 15.2% strongly agreed, 10.9% strongly disagreed and 13.0% were neutral (Table 2). In determining whether Laissez-faire leadership increased employee productivity, 21.7% disagreed, 8.7% strongly disagreed, 47.8% agreed, 10.9% were neutral and 10.9% strongly agreed. These findings showed that Laissez-faire leadership increased employee turnover and productivity. These finding disagree with the studies by Schneider, et al. (2003), who stated that laissez-faire leadership style leads to the lowest productivity among group members. This style of leadership has been found to affect organizational performance in many institutions (Mondy & Premeaux, 1995; Luthans, 2005; Robbins, et al., 2007).

Transformational leadership on employee turnover and productivity

On whether the transformational leadership affected employee productivity, 13.0% disagreed; 13.0% strongly disagreed, 43.5% agreed, 8.7% were neutral while 21.7% strongly agreed (Table 2). This means that transformational leadership affected employee productivity. These findings agree with Chakrabarty (2011) who stated that employee productivity increased by approximately 50% when employees were under transformational leadership. On whether transformational leadership affected employee turnover, 8.7% disagreed, 13.0%, strongly disagreed, 43.5% agreed, 2.2% were neutral while 32.6% strongly agreed. This implied that transformational leadership affected employee turnover. According to Blake and Mouton (1964) a transformational leader is a visionary who inspires people's heart and minds therefore motivating employees to enjoy their working environment, which ultimately has an effect on employee turnover.

Table 2: Leadership styles and their effect on employee turnover

Leadership styles	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Democratic	8.7%	37%	0	39.1%	15.2%
Autocratic	13.0%	41.3%	6.5%	32.6%	6.5%
Transactional	6.5%	28.3%	6.5%	37.0%	21.7%
Laissez-faire	15.2%	41.3%	13.0%	19.6%	10.9%
Transformational	21.7%	43.5%	8.7%	13.0%	13.0%

Table 3: Leadership styles and their effect on employee productivity

Leadership styles	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Democratic	19.6%	50.0%	6.5%	17.4%	6.5%
Autocratic	10.9%	47.8%	8.7%	21.7%	10.9%
Transactional	21.7%	47.8%	10.9%	15.2%	4.3%
Laissez-faire	10.9%	47.8%	10.9%	21.7%	8.7%
Transformational	32.6%	43.5%	2.2%	8.7%	13.0

Leadership styles on Sales performance, employees satisfaction

The respondents were asked to identify whether leadership style has played a role in the sales performance of their organization. Majority of the respondents comprising of (76.1%) believed that leadership style had played a role in the sales performance for their organization in microfinance institutions while 23.9% did not agree with the statement. This implies that leadership style played a role in the sales performance of MFI's in Nairobi. Findings from studies done by Singh (2011) found that leadership styles can either motivate or discourage employees, which in return can either increase or decrease an employee's level of performance.

Leadership style and Employee Satisfaction

The respondents were further asked to indicate whether they believed that leadership style has played a role in developing employee satisfaction within their organization. A majority of the respondents (63%) said that leadership style has played a role in developing employee satisfaction within their organization while 37% disagreed. This implies that leadership style affects employee satisfaction within microfinance institutions. These findings agree with Tremblay and Rousel (2001) who state that leadership style encourages employees to put up the right attitudes or positive behavior towards their job. They also explained that, an employee who positively evaluated their job performance in an organization is more likely to exhibit a high level of employee satisfaction.

Relationship between Leadership Styles and Performance of Microfinance institutions

Leadership styles strongly affected employee productivity with the highest effect being on transactional leadership with a mean of 3.67, and 3.59 on democratic leadership, 3.58 on transformational leadership and 3.26 on autocratic leadership. Leadership styles also affected employee turnover with the highest effect being on Autocratic leadership with a mean of 3.22, followed by transformational leadership with a mean of 2.89, democratic leadership was at 2.85 and transactional leadership had 2.61. This implied that all the leadership styles mentioned have a positive effect on the performance of microfinance institutions. These findings are contrary to the study done by Ojokuku, et al. (2012) who concluded that transformational leadership style and democratic leadership style have a positive effect on employees and their performance. while transactional leadership styles had a negative effect which is not significant to employees and their performance.

CONCLUSIONS

The study found that microfinance institution has a diverse array of leadership. However, democratic leadership stands out as the dominant style, followed by transformational leadership then autocratic leadership. The study found that transformational and democratic leadership style, in which employees are allowed to have sense of belonging, carry out higher responsibility with little supervision, and followers are helped to achieve their visions and needs enhance organizational efficiency, have a more positive impact on the productivity of the

MIFIs. Autocratic leadership style was also found to have a positive effect on MFIs' performance although limited.

It us recommended that microfinance institutions create an environment conducive for transformational leadership. This will ensure that employee turnover is low, enhances employee satisfaction and productivity as employees grow to love their work. Microfinances should also look into ways on how to enhance positive leadership that will enable departmental performance move from average/moderate to best performance.

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