

## **Impact of Leadership Style on Organizational Performance: A Case Study of Nigerian Banks**

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The study examined the impact of leadership style on organizational performance in selected Banks, in Ibadan Nigeria. Purposive sampling technique was adopted in selecting a total of sixty (60) respondents as sample for the study, while relevant data was gathered with the aid of a structured questionnaire. One hypothesis was formulated and inferential statistical tool was used to analyze the data specifically Pearson product moment correlation was used to examine the relationship between leadership style dimensions and organizational performance, while Regression analysis was used to examine the significant effect of leadership style dimensions on followers and performance. Findings showed positive and negative correlation between leadership style dimensions and organizational performance. It was also found that leadership style dimensions jointly predict organizational performance, which counted for 23% variance of performance. The study concluded that transformational and democratic leadership style should be employed by the Banks' management in order to wax stronger in a global competitive environment.

Keywords: leadership style, organizational performance, transformational leadership, democratic leadership

### **Introduction**

Leadership style is a key determinant of the success or failure of any organization. A leader is person who influences, directs, and motivates others to perform specific tasks and also inspire his subordinates for efficient performance towards the accomplishment of the stated corporate objectives. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people.

According to Ngambi et al. (2010) and Ngambi (2011), cited in Jeremy et al. (2011), leadership is a process of influencing others' commitment towards realizing their full potential in achieving a value-added, shared vision, with passion and integrity. The nature of this influence is such that the members of the team cooperate voluntarily with each other in order to achieve the objectives which the leader has set for each member, as well as for the group. The relationships between the leader and employee, as well as the quality of employees' performance, are significantly influenced by the leadership style adopted

by the leader (Jeremy et al., 2011). Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization (Obiwuru et al., 2011).

Leadership is a critical management skill, involving the ability to encourage a group of people towards common goal. Leadership focuses on the development of followers and their needs. Managers exercising transformational leadership style focus 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 followers achieve their goals as they work in the organizational setting; it encourages followers to be expressive and adaptive to new and improved practices and changes in the environment (Azka et al., 2011).

According to Michael (2011) leadership has a direct cause and effect relationship upon organizations and their success. Leaders determine values, culture, change tolerance and employee motivation. They shape institutional strategies including their execution and effectiveness. Leaders can appear at any level of an institution and are not

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exclusive to management. Successful leaders do, however, have one thing in common. They influence those around them in order to reap maximum benefit from the organization's resources, including its most vital and expensive.

In recent times, many organizations in the Nigerian banking industry, have recorded cases of immoral and unethical banking practices, gratifications, high labour turnover, inability to meet basic required obligations, and incessant financial distress syndrome, which has led to many banks being merged and acquired. This may be as a result of lack of effective leadership. The prime motive of many organizations is to achieve its stated objectives, hence the need to effectively coordinate and motivate the workers by an effective leader. Unfortunately some organizations do not take cognizance of the leadership style adopted by their managers. It is on this premise that this research work set out to examine leadership style and organizational performance in Skye Bank Plc, Nigeria.

The objective of this study was to identify the style or styles of leadership adopted by the managers, and examine its effect on workers' performance, which invariably translated to organizational performance. The following hypothesis was formulated for the study: *Hypothesis (H<sub>0</sub>): Leadership style dimensions have no significant effect on organizational performance in selected Banks in Nigeria.*

## Literature Review

### *Leadership style*

Leadership is life blood of any organization and its importance cannot be underestimated. Many authors have studied this phenomenon, but there is no conscious definition of what leadership is, no dominant paradigm for studying it, and little agreement regarding the best strategies for developing and exercising it (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007). Omolayole (2006) views leadership as that kind of direction, which a person can give to a group of people under him in such a way that these will influence the behavior of another individual, or group. Ngodo (2008) perceives leadership to be a reciprocal process of social influence, in which leaders and subordinates influence each other in order to achieve organisational goals. Leadership style is viewed as the combination of traits, characteristics, skills and behaviours that leaders use when interacting with their subordinates (Marturano & Gosling, 2008, Jeremy et al., 2011). Flippo & Musinger (1999) see leadership as a pattern of managerial behavior designed to integrate personal

or organizational interest and effect, in pursuit of some objectives.

Fiedler (1969) postulates that leadership style refers to a kind of relationship whereby someone uses his ways and methods to make many people work together for a common task. In modern leadership theories, five leadership styles have been presented, including (i) charismatic leadership, (ii) transactional leadership, (iii) transformational leadership, (iv) visionary leadership, and (v) culture-based leadership (Yukl, 1994; Bass, 1990; Sashkin, 1996; Sergiovanni, 1987). Tannenbanum and Schmidt (1958) also identify four different types of leaders which have been most widely accepted and used. These leadership styles, which centre around Mc Gregor's Theory 'X and Y' assumptions, are democratic, autocratic, dictatorial, and laissez faire leadership styles.

Below is a brief examination of some common leadership style dimensions listed above and their potential impact on a group as well as their relative usefulness.

### *Charismatic leadership*

By far the most successful trait-driven leadership style is charismatic. Charismatic leaders have a vision, as well as a personality that motivates followers to execute that vision. As a result, this leadership type has traditionally been one of the most valued. Charismatic leadership provides fertile ground for creativity and innovation, and is often highly motivational. With charismatic leaders at the helm, the organization's members simply want to follow. It sounds like a best case scenario. There is however, one significant problem that potentially undercuts the value of charismatic leaders: they can leave. Once gone, an organization can appear rudderless and without direction. The floundering can last for years, 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. The result of weeding out the competition is a legion of happy followers, but few future leaders (Michael, 2010).

### *Transactional leadership*

The wheeler-dealers of leadership styles, transactional leaders are always willing to give you something in return for following them. It can be any number of things including a good performance review, a raise, a promotion, new responsibilities or a desired change in duties. The problem with transactional leaders is expectations. Transactional leadership style is defined as the exchange of rewards and targets between employees and management

(Howell & Avolio, 1993). Transactional leaders fulfill employee needs of rewards when targets are met (Bass, 1990; Howell & Avolio, 1993; Humphreys, 2002). Pounder (2002) defines this style as the transaction of needs fulfillment from both sides of the organization and employees.

### ***Transformational leadership***

Transformational leadership style focuses on the development of followers and their needs. Managers exercising transformational leadership style focus on the development of value system of employees, their motivational level and moralities with the development of their skills (Ismail et al., 2009). Transformational leadership acts as a bridge between leaders and followers to develop clear understanding of follower's interests, values and motivational level. 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).

### ***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).

### ***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).

### ***Democratic leadership***

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

### ***Leadership style and organizational performance***

Relationship between leadership style and organizational performance has been discussed often. Most research showed 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) report that there is significant relationship between leadership styles and organizational performance. 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) compares 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.

Broadly speaking, leadership performance is identical with organizational performance. Business management attributes their successes to leadership efficiency, that is, the leadership style of administrative supervisors has a considerable effect on the organizational performance (Sun, 2002). 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. Howell and Frost (1989) cited

in Fu-Jin et al, 2010) also confirm that there is a positive relation between leadership style and organizational performance.

**Methodology**

**Research sample and data collection**

The study covered twenty (20) randomly selected banks in Ibadan metropolis, Oyo state, Nigeria. A structured questionnaire was used in gathering relevant data from the branch managers, heads of operations and accountants face to face respectively. 60 questionnaires were filled and returned by the respondents

**Measuring instrument**

Leadership scale adopted by Zhu (2002) and Li (2002) was used in this research work. Leadership behavior was divided by its frequency performance into 5 levels, including “never”, “little”, “occasionally”, “often” and “always” as scored by Likert’s five-point scoring. Sample of questions were: “My supervisor rewards performance when his/her expectations are fulfilled”, “My supervisor will provide a new thinking approach for my difficult problem”, “My supervisor is not present when he/she is needed”, “My supervisor will inspire me with new ways to think about old problems”, “My supervisor speaks enthusiastically about our goals as a team”, “Unless the problem gets worse, my supervisor interferes”, “My supervisor makes me feel proud of being a member of the department”, “I am confident in my supervisor”.

In respect to measuring the reliability of the scale, the reliability coefficients (Cronbach’s) of the

charismatic leadership, the transactional leadership, the transformational leadership, the autocratic leadership, the bureaucratic leadership and the democratic leadership were 0.823, 0.791, 0.807, 0.644, 0.790 and 0.754 respectively.

Organizational performance scale was used to assess respondents’ level of their organizational performance compare with their competitors in the banking industry. The scale was subjected to item analysis in order to ensure it is valid and reliable and it yielded reliability alpha of .76.

**Results**

The result in table 1 shows that leadership dimensions have both positive and negative relationship with organizational performance, specifically, charismas style of leadership, transactional style of leadership, and bureaucratic style of leadership have negative effect on organizational performance with (r= -0.337, -0.186, -0.287; df = 53; P<.001) respectively. This implies that charismas style of leadership, transactional style of leadership, and bureaucratic style of leadership do not induce employees to perform as expected. This indicates that these styles of leadership demoralize employees and this may lead to high turnover intension. However, transformational style of leadership, autocratic style of leadership and democratic style of leadership have positive effect on organizational performance with (r =0.215; 0.016 and 0.109; df = 53; P<.001) respectively, which indicate that transformational style of leadership, autocratic style of leadership and democratic style of leadership induce employees in Nigeria banking industry to perform as expected.

Table 1. Pearson correlation: Showing the relations of leadership style dimensions and organizational performance.

Variables	Mean	SD	1	2	3	4	5	6	7
Organizational performance	22.033	1.5619	1.000						
Charismas leadership	3.6833	1.3960	-0.337**	1.000					
Transactional leadership	3.0833	1.0623	-0.186**	0.224	1.000				
Transformational leadership	4.7667	0.4265	0.215**	-0.240	0.193*	1.000			
Autocratic leadership	1.9500	1.4193	0.016**	-0.042	-0.310	-0.188	1.000		
Bureaucratic leadership	2.3167	0.8923	-0.287*	-0.122	0.222*	-0.337	0.200	1.000	
Democratic leadership	4.9500	6.6623	0.109**	-0.204	-0.100	0.073	-0.047	-0.047	-

Note: \*\*P<.001 \* P<.05

**Testing of hypothesis**

*Ho: Leadership style dimensions have no significant effect on the organizational performance.*

The result shows that leadership style dimensions (charismas, transactional, bureaucratic, transformational, autocratic and democratic style of leadership) were joint predictors of organizational

performance (F (6, 53) = 2.635; R<sup>2</sup> = 0.23; P <.05). The predictor variables jointly explained 23% of the variance of organizational performance, while the remaining 77% could be due to the effect of extraneous variables. Charismas leadership style (β = -0.395; t = -2.511; P<.05); bureaucratic leadership style (β =-0.562; t = -2.208; P<.05) were significantly independent predictors of organizational performance.

This implies that both have negative significant effect on followers and performance. This means that leadership's greatest benefits, motivating and developing people are ignored and this will not induce employees to perform as expected. Furthermore, transactional leadership style ( $\beta = -0.61$ ;  $t = -0.296$ ;  $P > .05$ ) has negative effect but not significant on followers and performance. However, transformational style of leadership ( $\beta = 0.44$ ;  $t = 0.298$ ;  $P < .05$ ) and democratic style of leadership ( $\beta = 0.001$ ;  $t = 0.010$ ;  $P < .05$ ) were significantly independent

predictors of organizational performance. This implies that both have positive significant effect on followers and performance. This indicate that transformational and democratic styles of leadership focus on the development of value system of employees, their motivational level and moralities with the development of their skills and this induce employees to perform as expected. Also bureaucratic style of leadership ( $\beta = 0.072$ ;  $t = 0.581$ ;  $P > .05$ ) has positive effect but insignificant on followers and performance.

Table 2. Model Summary<sup>b</sup>

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.479 <sup>a</sup>	.230	.143	1.44632	1.060

a. Predictors: (Constant), democratic, autocratic, transactional, transformational, charismas, bureaucratic  
 b. Dependent variable: orgp stands for organization performance

Table 3. ANOVA<sup>b</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.066	6	5.511	2.635	.026 <sup>a</sup>
	Residual	110.867	53	2.092		
	Total	143.933	59			

a. Predictors: (Constant), democratic, autocratic, transactional, transformational, charismas, bureaucratic  
 b. Dependent variable: orgp

Table 4. Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	24.053	3.011		7.988	.000
Charismas	-.395	.157	-.353	-2.511	.015
Transactional	-.061	.206	-.041	-.296	.768
Transformational	.161	.541	.044	.298	.017
Autocratic	.080	.137	.072	.581	.564
Bureaucratic	-.562	.254	-.321	-2.208	.032
Democratic	.000	.029	.001	.010	.012

a. Dependent variable: orgp

**Discussion**

The objective of this research work was to examine the significant effect of leadership style on organizational performance. From the result, it was discovered that there is positive and negative correlation between leadership style dimensions and organizational performance, the model gives good account of dependent variable of organizational performance on leadership style dimensions. The coefficient of determinant of  $R = 0.23$  indicates that 23% variation in organizational performance is accounted for by good leadership style. This finding agrees with the work of Howell and Frost (1989),

Fu-Jin et al. (2010), Obiwuru et al (2011), and Jeremy et al. (2011) that leadership style has significant effect on organizational performance.

**Conclusion**

This study has investigated the effect of leadership style on organizational performance in Nigerian banks. The results of this study revealed that there is strong relationship between leadership style and organizational performance. On the basis of the findings of this study, it can be concluded that leadership style has both positive and negative effect

on organizational performance. 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. Surprisingly autocratic leadership style also has positive effect on banks' performance although is insignificant. It is concluded that transformational and domestic leadership styles are the best for the management of Nigerian banks to be adopted in order for them to wax stronger in a global financial competitive environment.

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