

The Effect of Leadership Styles on Organizational Performance at State Corporations in Kenya

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Abstract

This study investigated the main effects of leadership styles on organizational performance at state-owned corporations in Kenya. It specifically sought to determine the impact of laissez-faire, transactional and transformational leadership styles on organizational performance at state-owned corporations in Kenya. A descriptive survey research based on the perceptions of middle and senior managers in thirty (30) state-owned corporations based in Mombasa, Kenya was undertaken. A structured self-completed research questionnaire was thereafter distributed and collected after one week. The completed questionnaires were checked for plausibility, integrity and completeness resulting in 72 usable cases. Three independent variables with various factors were identified and measured using a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). These were laissez-faire; transactional; and transformational leadership styles. The dependent factor was represented by the degree to which the organization has achieved its business objectives in the previous financial year. To discover the leadership styles that influence organizational performance, correlation analysis was employed.

Correlations between the transformational-leadership factors and organizational performance ratings were high (0.518 to 0.696, $P < .05$), whereas correlations between the transactional-leadership behaviors and organizational performance were relatively low (0.219 to 0.375, $P < .05$). As expected, laissez-faire leadership style is not significantly correlated to organizational performance. Based on the findings, the following recommendations are given: managers should discard laissez-faire leadership style by becoming more involved in guiding their subordinates; public managers should formulate and implement effective reward & recognition systems. It was further recommended that managers should: strive to become role models to their subordinates; inspire subordinates by providing meaning and challenge to work; stimulate subordinate efforts to become more innovative & creative; and lastly, pay greater attention to each individual's need for achievement and growth.

Key words: *Laissez-faire, Transactional leadership, Transformational leadership, organizational performance, government parastatals.*

1.0 Background

An overview of the history of research into the topic of leadership reveals that the literature on leadership and performance can be broadly categorized into a number of important phases. Early studies on leadership (frequently categorized as 'trait' studies on leadership) concentrated on identifying the personality traits which characterized successful leaders (; Mahoney *et al.*, 1960). Trait theories assume that successful leaders are 'born' and that they have certain innate qualities which distinguish them from

non-leaders. However, the difficulty in categorizing and validating these characteristics led to widespread criticism of this trait approach, signalling the emergence of 'style' and 'behavioural' approaches to leadership (Stodgill, 1948). Style and behavioural theorists shifted the emphasis away from the characteristics of the leader to the behaviour and style the leader adopted (Likert, 1961). The principal conclusion of these studies appears to be that leaders who adopt democratic or participative styles are more successful.

In this sense, these early studies are focused on identifying the 'one best way of leading'. Similarly to trait theories, the major weakness of style and behavioural theories is that they ignore the important role which situational factors play in determining the effectiveness of individual leaders (Mullins, 1999). It is this limitation that gives rise to the 'situational' and 'contingency' theories of leadership (for example, Fiedler, 1967; House, 1971; Vroom and Yetton, 1974) which shift the emphasis away from 'the one best way to lead' to context-sensitive leadership. Although each study emphasizes the importance of different factors, the general tenet of the situational and contingency perspectives is that leadership effectiveness is dependent on the leader's diagnosis and understanding of situational factors, followed by the adoption of the appropriate style to deal with each circumstance. However, in an apparent return to the 'one best way of leadership', recent studies on leadership have contrasted 'transactional' leadership with 'transformational' leadership (Ogbonna and Harris, 2002). Transactional leaders are said to be 'instrumental' and frequently focus on exchange relationship with their subordinates (Bass and Avolio, 1993). In contrast, transformational leaders are argued to be visionary and enthusiastic, with an inherent ability to motivate subordinates (Howell and Avolio, 1993).

Although the brief summary above indicates that research into leadership has gone through periods of scepticism, recent interest has focused on the importance of the leadership role to the success of organizations. Fiedler (1996), one of the most respected researchers on leadership, has provided a recent treatise on the importance of leadership by arguing that the effectiveness of a leader is a major determinant of the success or failure of a group, organization, or even an entire country. Indeed, it has been argued that one way in which organizations have sought to cope with the increasing volatility and turbulence of the external environment is by training and developing leaders and equipping them with the skills to cope (Hennessey, 1998). These claims are based on the assumption of a direct link between leadership and organizational performance. This assumption requires critical review. Moreover, leadership has long been seen as a key factor in organizational effectiveness, but interest in public sector leadership has increased over recent decades. An interest in transforming the public sector by learning from the business world contributed to this interest, as leadership was seen as one of the key elements that made private companies more effective than the public sector was perceived to be. An interest in learning from the private sector, where leadership has long been seen as an important element in business performance, is therefore a contributing factor in the blossoming of leadership in the context of the public sector (Murphy et al., 2006).

1.1 Problem Statement

Widely celebrated cases of a direct leadership-performance link may be found in numerous anecdotal accounts of improvements of company performance attributed to changes in leadership (Nicholls, 1988; Simms, 1997). However, empirical studies into the links between leadership and performance have been lacking (Quick, 1992). One notable exception is the detailed study of the impact of leadership on performance in the context of Icelandic shipping industry. Thorlindsson (1987) suggests that variations in

the performance of different ships, under identical conditions, can be accounted for by the leadership skills of captains. Over a three-year period, Thorlindsson (1987) revealed that the leadership qualities of the ship captains accounted for 35 to 49 per cent of variation in the catch of different crews.

Other studies which examine the links between leadership and performance coincide with the re-emergence of the 'one best way to lead' debate. Of particular relevance is the resurgence of interest into charismatic leadership, which is frequently referred to as transformational leadership (Bass and Avolio, 1993). A number of researchers theorize that transformational leadership is linked to organizational performance (Howell and Avolio, 1993). Conceptually, it is argued that the visionary and inspirational skills of transformational leaders motivate followers to deliver superior performance (Nicholls, 1988; Quick, 1992). In summary, much of the above evidence presented as supporting the claim of a leadership-performance link is anecdotal and frequently over-concentrates on the 'transformational' role of leaders in corporate successes (Quick, 1992; Simms, 1997). It would appear that few studies have responded to the observation of Porter and Mckibbin (1988) that much of the research reported as supporting this claim is either inconclusive or empirically suspect. The limited or inconclusive character of research findings in this area suggests the need to investigate further the nature of the relationship between leadership and performance. This study is a step in this direction.

1.2 Research Purpose

This study investigated the main effects of leadership styles on organizational performance at state-owned corporations in Kenya. It specifically sought to determine the impact of laissez-faire; transactional, and transformational leadership styles on organizational performance at state-owned corporations in Kenya.

1.3 Research Questions

The following research questions were used to guide the study: What is the effect of the laissez-faire leadership style on organizational performance at state-owned corporations in Kenya? What is the effect of the transactional leadership style on organizational performance at state-owned corporations in Kenya? What is the effect of the transformational leadership style on organizational performance at state-owned corporations in Kenya?

1.4 Scope of the Study

The scope of this study extended to middle and senior managers in thirty (30) state-owned corporations based in Mombasa, Kenya.

2. Synopsis Literature Review

2.1 Leadership – Definitions

The massive, often turbulent change that characterised business organizations in the 1970s and 1980s led to what has been described as the "new paradigm", with its emphasis on being charismatic (House, 1977), visionary (Sashkin, 1988), and transformational (Bass, 1985). These were seen as revealing a conception of the leader as someone who, by defining an organization's mission and the values which will support it, defines organizational reality. Thus, in the "New Leadership" approach, leaders are seen as managers of meaning, rather than in terms of simply an influence process. However, over the last few years – arguably fuelled by increased fanaticism, the rapid changes in the global world such as rapidly-evolving

technologies, and political and social factors have also called for the development of effective leadership skills (Cacioppe, 1998). Consequently, leadership development programs have become an increasing priority for government organizations.

The concept of leadership has generated lively interest, debate and occasional confusion as management thought has evolved. Even today, it is not easy to define leadership, and given the complexity of the subject, there is no general consensus about delimitation of the field of analysis. According to Bass (1999), definition of leadership is related to the purpose associated with the attempt to define it, and so presents a wide range of possibilities. Leadership can be seen as a group process, an attribute of personality, the art of inducing complaisance, an exercise of influence, a particular type of action or behaviour, a form of persuasion, a power relationship, an instrument to achieve goals, the result of an interaction, a differentiated role or initiation of a structure (Bass, 2000).

The concept of leadership is defined, according to Hersey and Blanchard (1979), “as the process of influencing the activities of an individual or a group in efforts toward goal accomplishment”. For Senge (1990), leadership is associated with stimulants and incentives that motivate people to reach common objectives. Hersey et al. (2001), states that the essence of leadership involves achieving objectives with and through people. Wehrich and Koontz (1994) define leadership as the process of influencing people so that they make an effort by their own will and enthusiasm towards obtaining the group’s goals. According to Kotter (1990), without leadership, the probability of mistakes occurring increases and the opportunities for success become more and more reduced. For these same authors, and in this context, leadership allows cooperation, diminishes conflicts, contributes to creativity and has an integrating role, as it keeps people united even when not physically so. In this way, leadership, together with stimulants and incentives, promotes people’s motivation towards achieving common goals, having a relevant role in the processes of forming, transmitting and changing organizational culture (Senge, 1990).

2.2 Leadership Approaches

One of the most prominent formats for classifying and studying leadership includes three styles – transformational, transactional and laissez-faire leadership. The present study uses charismatic leadership approach to identify the leadership style of public managers. In this approach, leadership is conceptualised by the behavioural areas from laissez-faire style (non-leadership), through transactional leadership (which hinges on reward system and punishments), to transformational leadership (which is based on inspiration and behavioural charisma) (Bass and Avolio, 1993). The approach is chosen because of its currency in management research and the efficacy demonstrated through research findings. The various components are now elaborated.

Laissez-faire Style: An avoidant leader may 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. Laissez-faire style is associated with dissatisfaction, unproductiveness and ineffectiveness (Deluga, 1992).

Transactional Style: Transactional 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 (Bass, 1985; Bass and Avolio, 1993). Transactional leadership. “Using a carrot or a stick, transactional leadership is usually characterized as instrumental in followers’ goal attainment” (Bass, 1997). There are three components in transactional leadership – Contingent reward, whereby subordinates’ performance is associated with contingent rewards or exchange relationship;

Active Management by exception, whereby leaders monitor followers' performance and take corrective action if deviations occur to ensure outcomes achieved; Passive Management by exception, whereby leaders fail to intervene until problems become serious (Bass, 1997).

Transformational Style: Transformational leaders encourage subordinates to put in extra effort and to go beyond what they (subordinates) expected before (Burns, 1978). The subordinates of transformational leaders feel trust, admiration, loyalty, and respect toward leaders and are motivated to perform extra-role behaviours (Bass, 1985; Katz and Kahn, 1978). Transformational leaders achieve the greatest performance from subordinates since they are able to inspire their subordinates to raise their capabilities for success and develop subordinates' innovative problem solving skills (Bass, 1985). This leadership style has also been found to lead to higher levels of organizational commitment and is associated with business unit performance (Barling et al., 1996).

The leadership factors used to measure transformational, transactional and laissez-faire leadership style in this study are from the Multifactor Leadership Questionnaire (MLQ) developed by Bass and Avolio (2004) based on the theory of transformational leadership. They are discussed below in detail:

2.2.1 Laissez-Faire Factor:

The non-leadership. Leaders in this type will always avoid getting involved when important issues arise and avoid making decisions.

2.2.2 Transactional Leadership Factors

Contingent reward: This factor is based on a bargaining exchange system in which the leader and subordinates agree together to accomplish the organizational goals and the leader will provide rewards to them. Leaders must clarify the expectations and offer recognition when goals are achieved.

Management-by-exception (active): The leader specifies the standards for compliance, as well as what constitutes ineffective performance, and may punish subordinates for being out of compliance with those standards. This style of leadership implies closely monitoring for mistakes and errors and then taking corrective action as quickly as needed.

Management-by-exception (passive): Passive leaders avoid specifying agreements, clarifying expectations and standards to be achieved by subordinates, but will intervene when specific problems become apparent. This style does not respond to situations and problems systematically.

2.2.3 Transformational Leadership Factors

Idealised influence (charisma): This factor consists of firstly, idealised influence attributed, and secondly, idealised influence behavioural. They are the charismatic elements in which leaders become role models who are trusted by subordinates. The leaders show great persistence and determination in the pursuit of objectives, show high standards of ethical, principles, and moral conduct, sacrifice self-gain for the gain of others, consider subordinates' needs over their own needs and share successes and risks with subordinates.

Inspirational motivation: Leaders behave in ways that motivate subordinates by providing meaning and challenge to their work. The spirit of the team is aroused while enthusiasm and optimism are displayed. The leader encourages subordinates to envision attractive future states while communicating expectations and demonstrating a commitment to goals and a shared vision.

Intellectual stimulation: Leaders stimulate their subordinates' efforts to be innovative and creative by questioning assumptions, reframing problems, and approaching old situations in new ways. The intellectually stimulating leader encourages subordinates to try new approaches but emphasizes rationality.

Individualised consideration: Leaders build a considerate relationship with each individual, pay attention to each individual's need for achievement and growth by acting as a coach or mentor, developing subordinates in a supportive climate to higher levels of potential. Individual differences in terms of needs and desires are recognized.

2.3 Leadership & Organizational Performance

Assuming "the essence of leadership is influence", leadership could broadly be defined as "the art of mobilizing others to want to struggle for shared aspirations" (Kouzes & Posner, 1995). However, it could be argued this "influence, mobilization and struggle" is of little value in an organizational context unless it ultimately yields an outcome in line with the "shared aspiration" for leadership to be deemed successful. Peter Drucker captures this notion by simply stating: "Leadership is all about results".

Creating results in today's ever changing and increasingly competitive world requires a very different kind of leadership from what was studied in the past. While leaders in the past managed perhaps complex organizations, this was in a world of relative stability and predictability. In today's globalized world, with organizations coping with rapidly changing environments, leaders face a new reality. Working in flexible contexts and connected by real-time electronic communication, increasingly mobile employees have themselves become the critical resource of their organizations (Reger, 2001). What is now needed are leaders who simultaneously can be agents of change and centers of gravity, keep internal focus and enable people and organization to adapt and be successful, while at the same time never letting go of the customer focus and external perspective (Alimo Metcalfe, 1998). 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). Thus, the measure of organizational performance in the current study represented the degree to which a company achieved its business objectives. The research model is illustrated below:

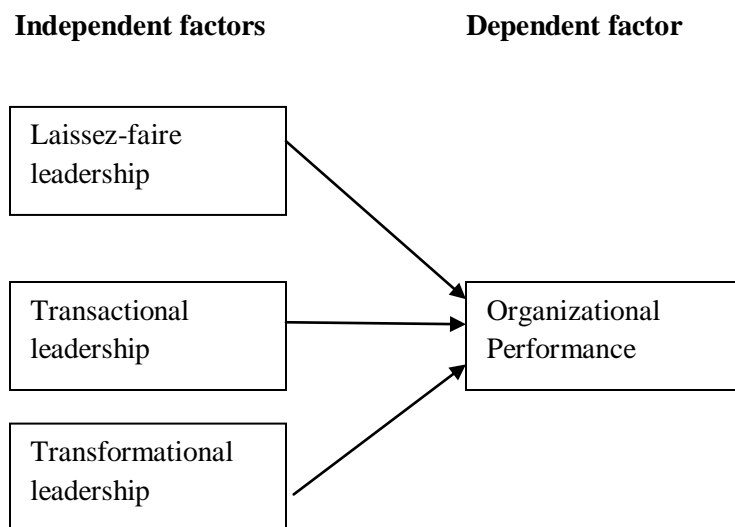


Figure 1 – Research Model showing the effect of Leadership Styles on Organizational performance

3. Research Methodology

A descriptive survey research based on the perceptions of middle and senior managers in thirty (30) state-owned corporations based in Mombasa, Kenya was undertaken. The survey method is appropriate for this kind of study as it provides a quantitative description of attitudes, experience and opinions of the sample population. A structured self-completed research questionnaire was distributed to the target population and collected after one week. The questionnaire included the construct items adapted from previous studies (notably, Bass & Avolio, 2004) and some questions on demographics. Each subject was assured of the confidentiality of his/her anonymous responses. The respondents were required to complete the questionnaire voluntarily. A total of 77 managers completed the questionnaires out of the 100 distributed questionnaires, representing a 77 per cent response rate. The completed questionnaires were checked for plausibility, integrity and completeness resulting in 72 usable cases. The sample could be described as a “judgment sample” who could offer the contributions sought (Churchill, 1999), as well as “key informants” who supposedly were knowledgeable about the issues being researched, and able and willing to communicate about them (Kumar, Stern & Anderson, 1993).

All the items used to measure the constructs were adapted from previous research but modified to fit the specific context of this study. Three independent variables with various factors were identified and measured using a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). These were laissez-faire; transactional; and transformational leadership styles. The respondents’ demographic information such as: employer name; gender; work experience; and education level was also captured using single item questions. The dependent factor was represented by the degree to which the organization has achieved its business objectives in the previous financial year. To discover the leadership styles that influence organizational performance, correlation analysis was employed.

4. Research Findings

The data was then analyzed using descriptive and inferential statistical measures as follows:

4.1 Demographic Analysis

Table 1: Demographic profile of the sample (n=72)

<u>Item</u>	<u>n</u>	<u>Percent</u>
Gender		
Male	52	72
Female	20	28
<u>Work experience</u>		
1> 3 years	14	20
2> 5 years	12	17
5>10 years	17	23
>10 years	29	40

Educational level

Secondary	6	8
Diploma	39	54
Degree	27	38

As per Table 1, the sample for this study included middle and senior managerial employees of thirty state-owned corporations in Mombasa, Kenya with a total of 77 participants, of the returned questionnaires 5 were excluded from the analysis because of missing responses. This left a valid sample of 72 participants. Of the sample, 72 percent was male. Most participants were at completed Diploma level (54 percent). Within the managers' sample, the highest percentage of work experience was within the range of 10 years or above (40 percent).

4.2 Descriptive Analysis

Table 2: Descriptive Statistics

<u>Leadership style</u>	<u>Leadership behaviour</u>	<u>n</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Mean</u>	<u>Standard deviation</u>
Transactional	Contingent reward	72	1.00	5.0	4.41	.887
	Management-by-exception: active	72	1.00	5.0	4.03	1.032
	Management-by-exception: passive	72	1.00	5.0	4.21	1.042
Laissez-faire	Laissez-faire	72	1.00	5.0	3.90	1.012
Transformational	Intellectual stimulation	72	1.00	5.0	3.05	.964
	Idealised influence	72	1.00	5.0	3.11	1.051
	Inspirational motivation	72	1.00	5.0	2.14	.943
	Individualised consideration	72	1.00	5.0	2.67	.1401

Table 2 shows the results of descriptive statistics. A higher mean value generally means that there is a higher level of measured construct.

4.3 Correlation Analysis

Since this study is exploratory in nature, the collected data are further analyzed using the Bivariate Correlation test. The Bivariate Correlation test computes Pearson's correlation coefficient, and measures how variables or rank orders are related. Pearson's correlation coefficient is a measure of linear association. The correlation coefficient value (r) range from 0.10 to 0.29 is considered weak, from 0.30 to 0.49 is considered medium and from 0.50 to 1.0 is considered strong.

Table 3: Correlation between leadership behavior & organizational performance

	CW	MBEA	MBEP	LF	IS	II	IM	IC	OP
CW	1.0								
MBEA	0.222	1.0							
MBEP	0.123	0.060	1.0						
LF	0.152	0.599 *	0.152	1.0					
IS	0.088	0.100	0.596*	0.240	1.0				
II	0.024	0.37**	0.143	0.276*	0.545*	1.0			
IM	0.134	0.419 *	0.122	0.143	0.134	0.176	1.0		
IC	0.28*	0.134	0.187	0.295*	0.141	0.337*	0.545*	1.0	
OP	0.219*	0.375 *	0.143	0.13	0.575*	0.632*	0.696*	0.518*	1.0

Notes: *Correlation is significant at the 0.05 level (two-tailed); **correlation is significant at the 0.01 level (two-tailed).

(Note: CW- Contingent rewards; MBEA- Management-by-exception: active; Management-by-exception: passive; LF - Laissez-faire; IS- Intellectual stimulation; II- Idealised influence; IM- Inspirational motivation; II- Idealised influence; IC- Individualised consideration; OP – Organizational performance).

Table 3 shows the correlations between laissez-faire, transformational and transactional-leadership behaviors and organizational performance ratings. As it can be seen, correlations between the transformational-leadership factors and organizational performance ratings were high (0.518 to 0.696, $P < .05$), whereas correlations between the transactional-leadership behaviors and organizational performance were relatively low (0.219 to 0.375, $P < .05$). As expected, laissez-faire leadership style is not significantly correlated to organizational performance.

5. Conclusions

- i) Assuming the essence of leadership is influence, leadership could broadly be defined as the art of mobilizing others to want to struggle for shared aspirations. However, it could be argued this “influence, mobilization and struggle” is of little value in an organizational context unless it ultimately yields an outcome in line with the “shared aspiration” for leadership to be deemed successful. At the same time, the literature suggests that empirical evidence on the link between leadership styles and performance in an organizational context is limited and inconclusive. Subsequently, this study investigated the effect of different leadership styles on organizational performance.
- ii) Laissez-faire leadership style is characterized by avoidant leaders who may 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. Previous findings of similar studies

assert that laissez-faire style is associated with dissatisfaction, unproductiveness and ineffectiveness. Unsurprisingly, the findings of this study are consistent with this observation as there were no significant relationships between laissez-faire style and performance. The descriptive statistics however suggests that this style is prevalently practiced by managers at the sampled organizations. The second leadership style investigated the prevalence of transactional leadership behaviours and their effect on organizational performance. The “carrot or a stick” approach is instrumental in followers’ goal attainment. The results indicate Contingent Rewards and Active Management by Exception have a medium positive correlation with organizational performance.

- iii) On the other hand, transformational leaders encourage subordinates to put in extra effort and to go beyond what they (subordinates) expected before. Transformational leaders achieve the greatest performance from subordinates since they are able to inspire their subordinates to raise their capabilities for success and develop subordinates’ innovative problem solving skills. As expected, relational analysis found that all transformational leadership behaviours have a strong positive correlation with organizational performance.

6. Recommendations

Based on the findings, the following recommendations are given:

- i) Given the widely documented ineffectiveness of laissez-faire leadership styles and the results of this study, it is recommended that managers should discard this leadership style so as to improve organizational performance. This calls for greater involvement in guiding subordinates to achieve organizational goals.
- ii) The results also indicate Contingent Rewards and Active Management by Exception, have a medium positive correlation with organizational performance. Public managers should therefore consider formulating and implementing effective reward & recognition systems as well as encouraging greater managerial supervision.
- iii) All variables of transformational leadership style have a strong positive relationship with organizational performance. It is therefore recommended that managers should: strive to become role models to their subordinates; inspire subordinates by providing meaning and challenge to work; stimulate subordinate efforts to become innovative & creative; and pay attention to each individual’s need for achievement and growth.

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