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Abstract

This study aimed at establishing the influence of leadership style on the financial performance of commercial banks operating in Kenya. The study adopted a positivist philosophy, correlational and cross-sectional research deigns and a target population comprising management staff working in commercial banks. 385 respondents were selected from 10,395 management staff. Primary data was collected using structured questionnaires with data being analyzed using both descriptive and inferential statistics. Parametric test statistics was adopted to establish the significance influence of variable effect at 95% level of significance as well as to test the study hypothesis. The regression of coefficients indicates that transformational leadership has a positive and significant partial effect on financial performance of commercial banks in Kenya with Democratic Leadership having a positive and significant partial effect on financial performance of commercial banks in Kenya. The study also shows that autocratic leadership has a positive and significant partial effect on financial performance of commercial banks in Kenya while Laissez-Faire leadership has a negative and significant partial effect on financial performance of commercial banks in Kenya. The study recommends that that top managers of the commercial banks need to take up effective transformational and democratic leadership style in their management programs. This can be achieved through staff training and development using both in-house and open training programs as well as continuing development programs. Banks should join hands with training and educational institutions in regard to development of leadership modules under their training programs.

1.1 Background of the Study

Commercial banks play the critical role of financial intermediation whereby they facilitate flow of funds between persons with financial surplus, mainly savers and those with financial deficit mainly borrowers and investors (Manasseh *et al*., 2021). They aggregate funds on behalf of the borrowers and investors while also facilitating settlement of business transactions. They also facilitate transformation of risks and maturities between savers and borrowers (Hull, 2018). In addition, through borrower due diligence, banks eliminate information asymmetry that exists between borrowers and investors on one hand and savers on the other as well as help in reduction of transaction costs related to lending (Abdelhafid & Buheji, 2019). Since banks, as financial intermediaries play a critical role in the economic stability and development of every country, their ability to function effectively can therefore be considered to be of interest to businesses, policy makers and the general public. Each bank's ability to function effectively can be established through an assessment of the probability of continuity of its operations which can best be evaluated through its financial performance indicators such as profitability, capital adequacy, liquidity and asset quality (Dzhamalovna *et al*., 2020).

Financial performance refers to a subjective assessment of how well a firm utilizes assets from its core activities or primary business operations in revenue generation while financial evaluation aims at establishing a clear picture of a company's financial position (Easwaran *et al*. 2021). It can also be expressed as assessment of the overall health of the financial position of an institution or the effectiveness of its policies and operations in monetary terms over a specified period of time (Wood, 2018). Data on financial performance is recorded in the annual, quarterly or monthly financial statements of an institution namely the income statement, balance sheet which and cash flow statement (Weygandt et al., 2018). Financial performance can be measured in absolute figures such as profitability, total cash generated, sales turnover, capitalization amongst others. It can also be measured in financial ratios which can be classified into market value, liquidity, performance, cash flow, profitability and debt ratios (Procházka, 2017).

In Kenya, the Central Bank of Kenya (2013), has issued a prudential guideline relating to preparation and publication of financial statements to commercial banks. The guideline requires that banks publish annual audited financial statements by end of the third month following the conclusion of the financial year with the financial year ending on 31st of December every year as well as publication of quarterly unaudited financial statements by the end of the month following the end of a financial quarter. The Central Bank of Kenya summarizes and analyzes the banks' financial statements and publishes performance ratios such as return on equity, liquidity ratio, return on assets, growth in profitability, growth in assets and capital adequacy amongst other disclosures. Bank financial performance is influenced by both internal bank specific and external macro-economic factors (Gautam 2018). Internal factors refer decisions by management and boards of directors while external factors relate to dynamics in the operating environment that management teams and board of directors have no influence over. This study sought to examine the influence of one internal factor namely leadership style since it relates to how persons in authority influence and relate with employees and hence impact financial performance.

1.2 Statement of the Problem

Central Bank of Kenya (2021) published summarized financial statements that revealed disparities in financial performance amongst banks with similar characteristics. For example, KCB ranks first in profitability but 5th in return on equity while Co-operative Bank ranks 4th and 8th in profitability and return on assets respectively. The same trend was evident in 2017 where only Barclays Bank ranks 5th on all the parameters since all others are ranked differently on all parameters. In addition, Equity Bank's profit was over KES 41 billion compared to Family Bank's KES 1.3 Billion in addition, Family Bank's average return on equity between 2017 and 2021 at 6.72% compared to Equity Bank's 33.3%. yet the two banks were formed in 1984.Diamond Trust Bank and Stanbic Bank had huge difference in profitability in 2021 with Diamond Trust reporting KES 4.4 billion in profitability while Stanbic Bank reported KES 9.5 billion in profits yet the two banks are classified as foreign owned and are in the same peer group. These disparities in financial performance in 2020 and 2017 raises questions about whether it could be due to something that the management teams in the different banks do or fail to do, a result of good/bad luck or chance or any other reasons. While either of the foregoing or a combination of two or more of the factors could offer an explanation, reasons behind the disparities could be of interest to banks' management, policy maker or regulators. This study therefore investigated the influence of leadership style on financial performance of commercial banks in Kenya.

Studies on the effect of leadership style on the financial performance of commercial banks and other financial institutions have been conducted and mixed results have been reported with both significant and insignificant findings (Maina and Waithaka, 2018; Kasuni, Mandere and Njeru, 2022; Walela and Okwemba, 2015). The foregoing findings were however based on either non-bank financial institutions or banks operating within a small region in Kenya thereby exhibiting contextual and methodological gaps. There are also study findings indicating that leadership has had negative impact on financial performance both in banking and other sectors (Collins, 2009; Tian et, al 2017). These findings however were not based on a Kenyan context and therefore may or may not be applicable to banks operating in Kenya. The findings pointed both conceptual and contextual gaps in knowledge. The contradictory research findings in this area justifies the need to further investigate the nature of the relationship between leadership style and financial performance of commercial banks in Kenya.

1.3 Objective of the Study

The objective of the study was to establish the influence of leadership style on financial performance of commercial banks in Kenya.

1.4 Research Hypotheses

The hypothesis for this study was:

H_{01}**:** Leadership style has no significant influence on financial performance of commercial banks in Kenya.

2.1 Theoretical background

Behavioral Theory of Leadership

Behavioral theory of leadership evolved from trait theories and stresses that principally, leaders are made and not born as well as that leadership behaviors can be learnt to ensure leadership effectiveness (Johns and Moser, 1989; Denison, Hooijberg and Quinn, 1995). The theory therefore largely ignores the situation and environment of the leader as well as the leader's traits (Northouse et al., 2015). Research on behavioural theory of leadership resulted in different patterns of behaviour being grouped together and being referred to as styles with Blake and Mouton's Managerial Grid and Ohio State University's model being the earliest examples (Benmira and Ogboola, 2021). Approaches under the theory focus on how leaders conduct themselves and attempt to answer questions about what leaders do and how leaders act (Asrar-ul-Haqa and Anwar, 2018). They emphasize more on the determinants of behavior of a leader and conclude that using these determinants, leadership style can be learnt.

Leadership bbehaviours are classified into task behaviours which facilitate goal accomplishment and relationship behaviours which are geared towards assisting subordinates feel appreciated as well as comfortable with various work situations, themselves and with each other (Northouse, 2015). The behaviours can also be classified into leaders' concern for production and concern for people (Blake and Mouton, 1964, 1978, 1985) and attempts to explain how leaders combine both task and relationship behaviours in order to influence achievement of organizational objectives. Leadership behaviours can further be classified into initiating structure and consideration (Stogdill, 1974). Initiating structure can be equated to concern for production under Blake et. al (1964, 1978, 1985) and includes behaviours such as work organization, structure provision, role definition and work scheduling while consideration can be equated to relationship behaviors and includes relational behaviours such as trust building, respect as well as building companionship and friendship between leaders and followers. There is a general consensus amongst scholars that leaders need to be both highly task as well as highly relationship oriented in all situations (Peretomode, 2021; Nor, Mokhtar, & Hazuan, 2021).

The behavioural theory of leadership has integrated previous studies such as those by Weber (1947) who conceptualized transactional leadership style where leaders employ both rewards and punishments to ensure compliance and motivate followers. Compliance equates to task or production focus while motivation equates to relationship or employee focus. Transformational leadership style as conceptualized by Burns (1978) can also be classified as a product of behavioural theory of leadership. The style involves a process by which leaders and followers promote each other to higher levels of motivation and morality. Transformational leadership stands on four pillars namely inspirational motivation, idealized Influence, individualized consideration and intellectual stimulation. Idealized influence and individualized consideration can be considered the relationship or employee focus aspect of transformational leadership since they encompass the emotional component of transformational leadership and creation of an organizational climate where followers' individual needs are addressed. On the other hand, inspirational motivation and intellectual stimulation comprises the task or production component since they encompass communication of organizational goals and values as well as inspiration of creativity and innovation respectively.

The work of Lewin and Lippit (1938) who conceptualized a leadership model that classified leadership style into authoritarian also known as autocratic, democratic also referred to as participative, laissez-faire also known as delegate and bureaucratic styles ca also be considered part of behavioural theory of leadership. Autocratic leadership is practiced by leaders who prefer giving clear and concise instructions regarding what followers need to do, how things should be done as well as the exact timing of accomplishing tasks. They also maintain a clear distance between a leader and the followers as well as make decisions independently with minimal or no input from group members (Chukwusa, 2018). Democratic leadership is practiced by leaders who prefer giving guidance to team members, participate in team activities and allow member input in decision making in order to motivate followers (Yukl, 2013). They use decision participation as a method of follower empowerment and though they are participative in decision making, they still retain the final say in decision making. Laissez-faire leaders are considered as laid back and as preferring offering minimal or no guidance to group members. Consequently, decision making is largely left to members (Northouse, 2015). These leaders frequently employ a hands off approach which could lead to poorly defined roles and/or poor staff motivation.

From the foregoing studies, it is can be considered that in focussing for both production or employee orientations, leaders are striving to influence performance and meet stakeholder expectations. In this regard, leadership behaviour would have an influence on organizational performance. It is however noteworthy that behavioural theory of leadership has been hailed for shifting studies on leadership from a focus on leaders' personal characteristics to their behaviours. In addition, the theory focussed leaders on the fact that their leadership must strive to balance both task and relationship factors and that leadership can also be learnt. The theory is however criticized for not showing how leadership style relate to group performance (Bryman, 1992; Northouse, 2015), a question this study will endeavour to answer through evaluation of how leadership behaviour influences financial performance. The theory is also faulted for a failure to establish a consistent link between task or relationship behaviours and staff morale, job satisfaction, and productivity. The theory has also failed to find a style that can be universally applied in all situations.

Stakeholder Theory

Freeman (1984) conceptualized the stakeholder theory where he argued that successful firms have to create value for their stakeholders namely customers, suppliers, employees, communities and financiers. He further argued that the success of a firm cannot be accurately assessed by studying one type of stakeholder separate from others but that a wider approach which must include a full range of all its stakeholders should be adopted. While expounding on this theory, Philips, Freeman and Wicks (2003) stated that the reasons for existence of a firm, also known as its purpose, is measured through the firm's ability to create overall value for all its stakeholders. Consequently, the role of management is safeguarding the welfare of all stakeholders through understanding, pursuing and balancing numerous stakeholder interests (Freeman 1984). To address the concept of externalizing costs and internalizing profits which acts to the detriment of societal interests, (Freeman, 1984) argued that a firm must internalize both cost and profits thereby aligning its interests with those of its stakeholders,

The stakeholder theory, as an approach to organizational management and business ethics aims at addressing values and morals in organizational management. It identifies models, groups and institutions that are considered as having an interest in an organization and makes recommendations about how leaders and managers can address the interest of each stakeholder group and ensure that each group feels part and parcel of the organization (Freeman, 1984; Freeman et al, 2010). The theory is considered practical, efficient and useful (Harrisson, Freeman Abreu, 2015). It is practical because all organizations are duty bound to manage their stakeholders and efficient since stakeholders who are treated well are likely to reciprocate with positive

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behaviors, actions and attitudes towards the organization. For example, all stakeholders could share valuable information about themselves and others within the organization as well as share good information about the organization within their social systems. Satisfied clients could, on the other hand, purchase more goods and services as well as refer other clients while the government could give tax incentives with financiers providing better terms. In addition, shareholders could end up buying additional shares or providing additional capital while employees could exert additional effort towards organizational goals and increase their loyalty even during difficult times. The theory is effective since it galvanizes the energy of all stakeholders towards achievement of organization mission, vision and objectives which produces synergy. The resultant synergy brings about higher quality information and decisions which offers stability during turbulent times, makes the organization attractive to market participants as well as offering strategic competitive advantage.

Parmar et. al (2010) explained that stakeholder theory was conceptualized with a view to addressing three organizational problems namely value creation, ethics of capitalism and managerial mind-set. In regard to value creation, the theory set to explain how value can be created and traded in a rapidly changing and global business context while under capitalism and ethics, it sought to address the connection between ethics and capitalism. On managerial mindset, the theory set to address how managers think about management with a view to improving value creation as well as explicitly connecting business with ethics. The authors suggest that the problems can be resolved through an analysis and understanding of the relationships that exist between owners, employees, clients, suppliers, communities and financiers with a view to establishing ways in which they can work together in order to create and trade value. In addition, Keremidchiev, (2021) suggests that though businesses thrive in a capitalist system, managers and directors pursue moral and ethical ways with a view to ensuring that values, choices and rights of all groups are addressed, potential harm minimized and benefits maximized. This will also ensure that moral failures are prevented hence satisfying all stakeholder groups.

Donaldson and Preston (1995) asserted that initially, there was fear that a shift from the traditional shareowner focus to a stakeholder orientation would make it more difficult to monitor, identify and punish self-serving behavior by managers who had the intention of increasing their powers and emoluments in the guise of serving broad stakeholder interests. There were also fears to the effect that the theory had the potential to make clients and other stakeholders as partners in the production process thus damaging competitive advantages, whether it was realistic to assume that all stakeholders could be treated well as the same time or if the theory was advocating creation of value for all stakeholders or just shareholders (Freeman, Phillips & Sisodia, 2018). The concerns raised by Donaldson et al (1995) were addressed by the fact that the conventional typical prototype or model of a corporation, in legal as well as managerial forms, had already failed to discipline self-serving managerial behavior with multi-million dollar executive packages being in existence even before the theory was developed. In addition, application of the theory would restrict such self-serving behavior by insisting that all stakeholder groups be treated fairly (Donaldson et al 1995). On the other hand, the fact that the theory advanced collaboration did not make stakeholders partners to shareholders but just recognized that collaboration and competitiveness can co-exist. In this regard, value for all stakeholders was a reasonable target (Freeman, Phillips and Sisodia, 2018).

Stakeholder theory is relevant to this study since it is applicable to both financial reporting For example, Jones (1995) asserted that stakeholders are critical in ensuring high financial returns for a firm. Subrahmanyam and Titman (2001) stated that small changes in stock prices cause significant changes in the value of a firm's assets due to complementarities across different stakeholder groups since decisions by customers, employees, and suppliers, are partly influenced by information related to stock price. Freeman et al., (2010) also found a positive correlation between stakeholder management and a firm's financial performance since suppliers and clients have an indirect impact on a company's debt structure. Ramachandran (2019) noted that companies that act responsibly toward their stakeholders may experience increased business, higher profitability and improved reputation.

Critics of the theory however point out that external stakeholders such as suppliers and customers have a limited influence on the finance policy of a firm (Cornell & Shapiro, 1987). Smith (2003) also argues that attempts to balance stakeholder interests is basically a zero-sum game where decision makers take away from one group in order to give to another and thus increasing satisfaction in one group while decreasing another group's satisfaction. Proponents such as Post, Preston, and Sachs (2002) argue that a firm's financial performance is enhanced if stakeholder interests are catered for since stakeholder relationships are a mutually reinforcing, interactive network. Zingales (2000) in support of the theory also points out that stakeholder theory is the way of the future since the time for a firm which concentrates on shareholder welfare alone is long gone with the emergence of the information age.

2.2 Literature Review

Leadership Style

Leadership refers to the means by which persons in authority influence others towards collective efforts which facilitate accomplishment of shared objectives (Raffo & Clark, 2018). The foregoing definition suggest that leadership is an ongoing process and not an event. It also involves one or several persons influencing other people, within a group or team context. In addition, leadership involves attainment of goals or objectives which are shared by leaders and their followers (Malik and Azmat, 2019) and also focusses on results which are achieved mostly through teamwork and collaboration thereby requiring that leaders focus both on tasks and relationships.

Leadership Style is anchored under the behavioral theory of leadership and emphasizes what leaders do as well as their actions towards their subordinates in different contexts (Northouse, 2015). It can also be described as intentional means through which leaders influence groups of people within organizations towards widely understood future states that are different to existing ones (Gandolfi & Stone, 2018). Consequently, employees and other stakeholders though having differing objectives can be swayed into a common goal through the behavior of their leaders as well as how they are treated. Leadership style can generally be classified into task behaviors which emphasize goal accomplishment and relationship behaviors where leaders' emphasis is on ensuring that subordinates feel comfortable with the organization, themselves, their colleagues as well as with the situation they are operating in (Ruzgar, 2018). This mean that leaders should focus on both the tangible organizational objectives and rapport building with a view to enhancing the bond between individual employees and the organization as well as between individual employees.

Oni (2017) identifies relationship and task oriented leadership style. Task oriented style equated to concern for production and while relationship oriented style equated to concern for people under the works of Blake and Mouton (1964, 1978, 1985). Task orientation or concern for production refers to a leaders' inclination towards achievement of organizational tasks while relationship orientation or concern for people may be referred to as the way in which a leader relates to and attends to persons within the organization who are tasked with achievement of its goals. Relationship-oriented leadership incorporates staff recognition, development and support while task-oriented leadership involves planning, role clarification, objective setting and performance monitoring (Sfantou et al, 2017). The foregoing highlights the fact that leaders, in pursuit of organizational goals, cannot ignore tasks or relationships. It is also places emphasis on the need for leaders to be conscious about how they treat followers since their relationship with followers has an impact on results. The authors however fail to discuss the extent to which a leader should focus on task accomplishment compared to how much they should focus on relationship building.

Bodhankar and Modi (2018) discusses autocratic, bureaucratic, democratic and laissez-faire leadership style conceptualized by Lewin and Lippit (1938). Autocratic leaders hardly consult with followers, expect followers to obey orders without explanations and motivates through structured rewards and punishments. Bureaucratic leadership is where law, policy and procedures are applied to the letter and anything not outlined therein is declined or referred to higher authority. Democratic leadership refers to persons who adopt a participative, consultative style of leadership, who share information freely and involves followers in decision making. Laissez-Faire Leadership on the other hand refers to a style where little or no direction is offered to followers since the leader believes that people know what they need to do and can do it without much direction. Compared to studies regarding task and relationship behaviors it seems that autocratic and bureaucratic leaders may be more task than relationship oriented while democratic leaders could be more relationship than task oriented. On the other hand, laissez-faire leaders may neither be task or relationship oriented, preferring a hands-off approach.

Burns (1978) and Den Hartog (2019) discuss transformational leadership style as the process by which leaders and their followers challenge and promote each other to increasingly higher levels of motivation and morality. Leadership is therefore not a distinct set of acts but a process where leaders and followers influence one another while their relationships evolve over time. Transformational leaders use intellectual stimulation to inspire creativity and innovation and challenge the status quo; individualized consideration to create an organizational climate where followers' individual needs are addressed; idealized influence where the leader acts as a role model who the follower identify with and imitate due to their high moral and ethical conduct and inspirational motivation to communicate high expectations to followers in order to inspire commitment to shared (Teymournejad & Elghaei, 2017). These leaders seem also to be highly relationship and task focused since their motivation and inspiration is individualized as well as focused on the shared vision.

Transactional leadership style refers to an approach based on exchange of rewards for performance or punishment for nonperformance for example wages for effort and where leaders seek to appeal to followers' self-interest (Xenikou, 2017). Leaders thus focus on task accomplishment & good relationships in exchange for desirable rewards. These leaders may adapt their approach to suit follower experiences. They use contingent reward to clarify goals and reward followers or give incentives when expectations are met, passive management by exception where correction or punishment are utilized as a response to performance that is below expectations or any form of deviation from the acceptable standards. On the other hand, active management by exception refers

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to situations where a leader actively monitors employee performance and utilizes corrective methods with a view to ensuring that work is completed within acceptable standards (Khan, 2017).

Financial Performance of Commercial Banks

Studies have indicated that financial performance is a reliable trailing indicator of overall decision making (Collins and Porras, 2002; Siciliano, 2003) thereby rightly suggesting that good financial performance is a good indicator of good management decisions. On the other hand, Eklof, Podkorytova and Malova (2018) assert that non-financial measures of performance such as customer satisfaction, organizational learning and internal processes are good lead indicators of financial performance. In addition, non-financial information has been criticized due to lack or universally acceptable mean of verification as well as unreliability due to limited management information on the same (O'Connell & O'Sullivan, 2016). In this regard, this study conceptualized that published financial results are a reliable indicator of overall organizational performance.

Many authors have associated bank financial performance with availability of financial resources with limited reference to leadership and management. For example, Trujillo-Ponce (2013) concluded that European banks' financial performance is determined by bank size, capital ratio and loan loss provisions while Alemu and Negasa (2015) concluded that bank size, income diversification, capital structure, market structure and ownership status determine Ethiopian banks' financial performance. In addition, Mashamba (2018), assert that bank profitability is determined by size of bank deposit base, bank size, credit risk management, economic conditions, level of a country's gross domestic product and bank's business model or specialization. Qayyum and Noreen (2019) established that capital structure of a bank and the size of the bank has a positive and significant impact on bank's return on equity and return on assets ratios.

In Kenya, Ongore and Ngusa (2013) asserted that quality of assets, capital adequacy, liquidity management efficiency and ownership identity determine bank financial performance. Wanalo, Mande and Ng'ang'a (2020) on the other hand asserted that credit risk has a negative and strong relationship with financial performance while liquidity has a strong and positive relationship with bank' profitability and return on assets. This happens since deterioration in credit risk could lead to increasing loan losses thus reducing income while an improvement in liquidity increases ability to lend and invest which potentially increases income. The foregoing studies still leave the question regarding how leadership influences bank financial performance unanswered.

Leadership style and Financial Performance

Research findings have reported mixed findings on the relationship between leadership style or leadership behaviors and financial performance. For example, Collins (2001) established that leaders who exhibited a paradoxical blend of professional will and personal humility in addition to a fierce determination to make their companies succeed led their companies to sustained levels of financial performance. Collins and Hansen (2011) on the other hand established that companies headed by leaders who were more empirical, more disciplined and more paranoid in regard to creativity, innovation, risk taking and vision setting than their peers attained higher levels of financial and non-financial performance during periods of economic uncertainty. The foregoing studies were based on companies listed on the New York Securities Exchange using content analysis and a comparative research design. The authors however failed to arrive at specific leadership behaviors across the two studies probably because the time period, research objectives as well as the economic conditions were different.

Katsaros and Tsirikas (2020) found out that within Greek shipping firms, democratic, laissez-faire and transformational leadership styles had a positive correlation with firm financial performance while autocratic leadership style was negatively correlated with firm financial performance. This was attributed to the fact that transformational, democratic and laissez faire styles encouraged employee creativity and innovation. These findings concur with Amin, Durmaz and Demir (2021) who found out that leaders exhibiting transformational, ethical, and spiritual leadership were effective in improving the performance of their employees while at the same time restoring the public's faith in government owned institutions in Kurdistan, Iraq. The foregoing findings covering countries in three different continents as well as three different sectors suggest that leadership has an impact on financial performance with different styles having different kinds of impact. It is therefore important to find out if the same findings are applicable in a fourth sector in a different country as well as during a different time period. Contradictory findings have also been reported, for instance, Miloloza (2018) concluded that authoritarian leadership style which can be equated to autocratic leadership style had a negative impact on the financial performance of large enterprises in the growth and maturity phase in Croatia while Khajeh (2018) established that democratic leadership style had a negative impact on return on investments, profitability, shareholder returns market share and sales amongst companies in Iran.

In banking sector, Schaubroeck, Lam and Cha (2007) stated that although transformational leadership style was responsible for improved financial performance by banks in the United States of America and Hong Kong, poor financial performance of commercial banks could be attributable to poor management of bank's reputation and ethical malpractices. In addition, the collapse of Washington Mutual Bank of the United States of America in 2008 was blamed on the unorthodox leadership style of the Chief Executive as well as the incompetence of other leaders (Grind 2012). On the other hand, Delić, Kozarević and Alić (2017) found out that leader's willingness to build mutual trust, build teamwork, promote healthy working relationships and provide resources to employees positively and significantly contributed to the profitability of commercial banks in Bosnia and Herzegovina. In Kenya, Maina and Waithaka (2018) established a positive relationship between organizational financial performance and leaders who emphasized change, employee competence, creativity and innovation amongst other factors amongst commercial banks operating in Nyeri County.

Walela and Okwemba (2015) found a positive correlation between democratic and transformational leadership and the financial performance of microfinance institutions operating in Kakamega County, Kenya. Ojokuku, Odetayo and Sajuyigbe (2012) observed that democratic and transformational leadership styles improve financial performance while autocratic leadership style had a positive though statistically insignificant effect on the financial performance of the commercial banks. This study is based on commercial banks in Kenya and will therefore seek to establish if the findings by Ojokuku et al. (2012) are applicable in Kenya after 2013 as well as if findings related to microfinance institutions in Kenya can also be replicated in the banking industry.

Leadership has also had negative impact on financial performance as illustrated by Collins (2009) who found out that some leaders who had led their companies into success and even through chaos later undid the good they had accomplished. Some got blinded by success, became arrogant and considered success as an entitlement and lost sight of the factors that led to the success. Some become undisciplined in their pursuit of growth and greatness. While doing this, they lose sight of the importance of remaining within their core ideology so as to blend creativity with discipline and managing risks within an environment of constructive paranoia. They also get into denial when the company gets into decline and dismiss any problems as temporary with some even taking refuge in their past success. These leaders provide evidence to the fact that good leadership is not permanent and that good leaders can actually descend into mediocrity with catastrophic results for their organizations. The positive aspect in the foregoing is that the authors noted that some of the leaders later realized their mistakes and took action in order to take performance back on track which lends credence to the belief that leadership can be learnt as expressed under behavioral theory of leadership. The findings by Collins (2009), Collins and Hansen (2011) and Collins and Porras (2002) were based on longitudinal studies conducted in mid 1990s and early 2000s in the United States of America. The studies were also conducted on companies listed on New York Stock exchange and made comparisons between companies who were considered industry leaders with those that were not. The results of this study may therefore not apply to a Kenyan context.

There is no therefore no clear consensus amongst researchers in regard to the effect of each leadership style on financial performance. It is however clear that leadership style can have a positive, negative, significant or insignificant impact on organizational financial and non-financial performance. However, the literature generally portrays a positive impact of transformational and democratic styles but negative effect of laissez-faire style in both banking and business general. However, there exists limited literature relating to commercial banks operating in Kenya. In addition, success stories and failures amongst commercial banks in Kenya indicate that there is need to investigate the extent to which leadership style contributed to the success or failure stories. In this regard, this study sought to establish the extent to which leadership style have impacted financial performance of commercial banks in Kenya.

3.1 Research Design

This study used both cross-sectional and correlational research designs. Correlational design was suitable for this study since it would help in establishing the nature and strength of relationship between the variables. In addition, since the researcher did not intend to manipulate the variables and conducted regression analysis, tcorrelational design was deemed suitable. Cross sectional survey design was used since it is suitable for estimating prevalence of behavior in a population, information is obtained once from each respondent and helps avoid biased responses brought about by respondent familiarity with a study or research tools (Sedgwick, 2014). It was appropriate for this study because the study sought to establish prevalence of leadership style and explain relationships between different variables over a specified period of time namely 2017 to 2021.

3.2 Target Population and Respondent Selection

The target population in this study comprised of all the 38 commercial banks operating in Kenya as at 31st December 2017. Banks under receivership or liquidation and those taken over by other entities during the period of the study were excluded due to unavailability of financial statements. Study unit of analysis was the commercial banks with management cadre staff as the respondents There were a total of 10, 396 management staff in Commercial Banks operating in Kenya (Central Bank of Kenya, 2021).

385 respondents are required in order to ensure representativeness for populations exceeding 10,000 persons based on prevalence of 5 per cent, desired precision of 5 percent and 95 percent confidence interval is (Mugenda & Mugenda, 2009). In addition, Taherdoost (2017) assert that a

sample size of 370 is required for a population above 10,000 where a precision level of 5% and a confidence interval of 95% while Adam (2020) asserts that a sample size of 377 is required for the same size of population, precision level and confidence. Consequently, this study took 385 respondents to be sufficient.

The banks were not sampled. However, since data collected from a representative part of the population is considered representative (Oribhabor and Anyanwu, 2020; Allen, 2017)), probability, stratified, proportional, purposive and multi-level methods were used to identify the respondents. To ensure that the respondents had an equal opportunity of being surveyed, probability method was used. Stratified and random methods were used to ensure that all management staff were represented amongst respondents.

Chief Executives and Heads of Departments were identified using purposive sampling where Head of Human Resources were approached and requested to introduce the researcher to the Chief Executive and departmental heads. Where number of respondents required exceeded the Chief Executive and departmental heads, Branch Managers were identified using stratified random methods.

The bank management staff were stratified into branch and head office management. The number of respondents was distributed proportionately according to the number of employees per bank based on each bank's 2021 composite market share index. Stratification ensured that the sample consists of the characteristics of the larger total population while random selection of branches ensured that each branch manager has an equal chance of being selected (Abdul, 2021).

4.1 Response Rate

The response rate was analyzed with a view to showing the representativeness of the selected respondents. The study administered 385 questionaries' to the respondents and the results were as shown in Table 1.

Table 1: Response Rate

Category	**Number of Questionnaires**	**Response Rate**
Retuned	294	76.36%
Not returned	91	23.64%
Total	385	100%

4.2 Descriptive Statistics for Leadership Style

The descriptive statistics for Leadership Style; Transformational leadership, Autocratic leadership, Democratic leadership and Laisez-Faire leadership were conducted and results are depicted in Table 2.

Table 2: Descriptive Statistics for Leadership Style

Statistics	Transformational leadership	Autocratic leadership	Democratic leadership	Laisez-Faire leadership
N	294	294	294	294
Mean	4.312	2.402	3.293	1.075
Median	3.92	2.31	3.18	1.04
Mode	3.70	2.33	3.05	1.03
Std. Dev.	1.164	1.155	1.106	0.802
Skewness	-0.484	-0.365	-0.417	0.461
Kurtosis	-0.892	-1.047	-0.794	-0.901

The results from the Table 2 shows that that majority were agreeing with statements on transformational leadership (mean 4.312, median 3.88 and mode of 3.81) and democratic leadership (mean 3.293, median 3.18 and mode 3.05). Majority however disagreed with statement on autocratic leadership (mean 2.40, median 2.31 and mode 2.33) and laissez-faire leadership (1.075, median of 1.04 and mode of 1.03) The standard deviations values of 1.164, 1.155, 1.106 and 0.082 for transformational, autocratic, democratic and laissez faire leadership respectively showed that a majority of respondents differed from the mean values of 4.312, 2.40, 3.293 and 1.075 respectively. Skewness and kurtosis results indicated that distribution was approximately symmetric, platykurtic and therefore had no outliers since Transformational leadership had skewness and Kurtosis results at -0.484, and -0.892 respectively. On the other hand, autocratic leadership skewness and Kurtosis results were -0.365 and -1.047 respectively with Democratic leadership results being -0.417 and -0.794 for skewness and kurtosis respectively while Laisez-Faire leadership scoring 0.461 and -0.901 respectively for skewness and kurtosis.

4.3 Descriptive Statistics for Financial Performance

Descriptive statistics on financial performance of commercial banks in Kenya were conducted for growth in profitability, return on assets, return on equity and growth in assets using mean, standard deviation, minimum, maximum, skewness and kurtosis are shown in Table 3.

Table 3: Descriptive Statistics for Financial Performance

Statistics	Growth in Profitability	Return on Assets	Return on Equity	Growth in Assets
N	294	294	294	294
Mean	3.96	3.09	3.26	3.43
Median	4.00	3.00	3.00	3.00
Mode	4	3	4	3
Std. Deviation	.735	.653	1.213	.566
Skewness	-.190	-.087	-.318	-.227
Kurtosis	-.490	-.193	-.671	-.761
Minimum	1	1	1	1
Maximum	5	5	5	5

The mean of 3.96, median of 4.00 and mode of 4 with a standard deviation of 0.735 indicates that majority of respondents were in agreement that their banks recorded growth in profitability while mean of 3.09, medium of 3.00, mode of 3 with a standard deviation of 0.653. A majority of respondents were neither in agreement or disagreement on whether their banks recorded growth in return on equity. In addition, mean of 3.26 with a standard deviation of 1.213, medium of 3.00 and mode of 4 implies high variability in respondent responses in regard to return on assets with a majority of responses agreeing with the statements. A mean of 3.43 with a standard deviation of 0.566 for growth in assets indicated that a majority of respondents neither agreed nor disagreed that their banks recorded growth in asset over the analysis period.

Skewness and Kurtosis results indicated that the data was approximately symmetric, platykurtic and with no outliers. Growth in profitability recorded -0.380 and 0.490 while return on equity recorded -0.087 and -0.193 in regard to skewness and kurtosis. On the other hand, return on Asset. Results recorded Skewness at 0.318, and Kurtosis result of -0.671 while growth in assets recorded Skewness at -0.227 and Kurtosis at -0.67

4.4 Correlation Analysis

Correlation analysis was carried out to determine the association between the variables, leadership style, and financial performance. The mean score for each of the independent variables was calculated and the Pearson's correlation obtained using SPSS. The correlations were done at 0.05 significance level with one asterisk (*) or a 0.01 significance level with two asterisks (**). To determine whether the correlation between variables is significant, one needs to compare the p-value to the significance level used. A significance level, denoted as α or alpha, of 0.05 works well. An alpha of 0.05 indicates that the risk of concluding that a correlation exists when, actually, no correlation exists is 5%. The p-value indicate whether the correlation coefficient is significantly different from 0 or not. When the p-value is less than or equal to 0.05 the correlation is statistically significant. However, if the p-value is greater than 0.05 or the significant level then correlation is not statistically significant (Statistics Solution, 2018). The correlation results are presented in

Table 4: Correlation Matrix

Variables	Financial Performance	Leadership Style	Financial Innovation	Banking Regulation
Financial Performance	1.000			
Leadership Style	.822**	1.000		
	0.000			
Financial Innovation	.831**	.586**	1.000	
	0.000	0.000		
Banking Regulation	.841**	.634**	.614**	1.000
	0.000	0.000	0.000	

**. Correlation is significant at the 0.01 level (2-tailed).

The results in Table 4 indicates that leadership is positively and significantly associated with financial performance of commercial banks in Kenya (r= 0.822**, p=0.00<0.05). Since the r-values were above 0.7, this is an indication that leadership style, portrayed a high association with financial performance of commercial banks in Kenya.

To test the relationship between leadership style and financial performance, the following composite model was used; Y= βo + β1LS1+ ε

Table 5: Leadership Style Regression Model

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.8225a	.6764	.6753	.5810

ANOVA

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	206.081	1	206.0813	610.476	.000b
Residual	98.572	293	0.3376		
Total	304.653	294			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.9141	0.1034		8.8440	0.000
	Leadership Style	0.7128	0.0289	0.8225	24.7078	0.000

As presented in the Table 5, the coefficient of determination R Square is 0.6764. The model indicates that the composite Leadership Style explains 67.64% of the variation in financial performance of commercial banks in Kenya. This implies that there exists a significant relationship between leadership style and financial performance. The Analysis of Variance (ANOVA) results indicate that F-Calculated (1, 294) = 610.476 which is greater than F-Critical (1, 294) = 3.84 at 95% confidence level. Therefore, the results confirm that the regression model of Leadership Style on financial performance is significant. The regression of coefficients indicates that leadership style has a positive and significant relationship with financial performance of commercial banks in Kenya (β=0.7128, p<0.005). The fitted model from the result is;

Y = 0.9141 + 0.7128LS

The study null hypothesis (H_{01}) states that Leadership style has no significant influence on financial performance of commercial banks in Kenya. Test of this hypothesis revealed a t-statistics calculated value of 42.708 higher than the t-statistics critical value of 1.96 at 95% significant level and the p value 0.000 is less than the critical value 0.05, the study failed to accept the null hypothesis and there was evidence to conclude that Leadership style has a significant influence on financial performance of commercial banks in Kenya.

In addition, the study tested the various indicators of leadership style to ascertain their impact on financial performance using the multiple regression equation 2 shown below;

Y = βo + β1TL + β2AL + β3DL + β4LF + ε

Table 6: Model Fitness for Leadership Style

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.8354[a]	.6979	.6937	.5643	2.025

a. Predictors: (Constant), Laissez Faire Leadership, Autocratic Laedership, Democratic Leadership, Transformational Leadership
b. Dependent Variable: Financial Performance

As presented in the Table 6, the coefficient of determination R Square is 0.752. The model indicates that Leadership style explains 69.79% of the variation in financial performance of commercial banks in Kenya. This implies that there exists a significant relationship between leadership style and financial performance.

Table 7: ANOVA for Leadership style

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	212.618	4	53.155	166.911	.000b
Residual	92.035	289	.318		
Total	304.653	293			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Laissez Faire Leadership, Autocratic Leadership, Democratic Leadership, Transformational Leadership

The Analysis of Variance (ANOVA) results are shown in Table 7. Analysis of Variance consists of calculations that provide information about levels of variability within a regression model and form a basis for tests of significance. This was conducted using SPSS by using average mean score of leadership style and financial performance. The results in Table 4.24 indicate that F-Calculated was 53.155 and greater than F-Critical (4, 294) = 3.84 at 95% confidence level. Therefore, the results confirm that the regression model of Leadership style on financial performance is significant.

Table 8: Regression Coefficients for Leadership Style and Financial Performance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.170	.249		8.729	.000
Transformational leadership	.216	.039	.264	5.606	.000
Democratic Leadership	.215	.039	.255	5.539	.000
Autocratic leadership	.134	.041	.149	3.285	.001
Laisez-Faire leadership	-.283	.041	-.317	-6.847	.000

a. Dependent Variable: Financial Performance

The fitted model from the result is;

$$Y = 2.170 + 0.264X1 + 0.255X2 + 0.149X3 -0.317X4$$

The constant of 2.17 implies the factor change on financial performance when all other variable analyzed remains constant. The regression of coefficients indicates that Transformational leadership has a positive and significant partial effect on financial performance of commercial banks in Kenya ($\beta=0.264$, $p<0.005$); Democratic Leadership has a positive and significant partial effect on financial performance of commercial banks in Kenya ($\beta=0.255$, $p<0.005$); Autocratic leadership has a positive and significant partial effect on financial performance of commercial banks in Kenya ($\beta=0.149$, $p=0.001$); and Laisez-Faire leadership has a negative and significant partial effect on financial performance of commercial banks in Kenya ($\beta=-0.317$, $p<0.005$).

4.5 Discussion of Findings

The objective of the study was to establish the influence of leadership style on the financial performance of commercial banks in Kenya. A multiple regression model was used to test the statistical significance of the independent variable on the dependent variable in commercial banks in Kenya with the hypothesis stating that leadership style has no significant influence on financial performance of commercial banks in Kenya.

The study rejected the first hypothesis and established that Pearson correlation result indicated that leadership style has very strong positive and significant relationship with financial performance of commercial banks in Kenya. Similarly, the regression of coefficients of leadership style also indicated a positive and significant interdependency with financial performance of commercial banks in Kenya. Further, the regression of coefficients for the various leadership style indicated that transformational leadership has a positive and significant relationship with financial performance of commercial banks in Kenya. Democratic leadership style has a positive and significant relationship with financial performance of commercial banks in Kenya while Autocratic leadership has a positive and significant relationship with financial performance of commercial banks in Kenya. On the other hand, Laisez-faire leadership was found to have a negative and significant relationship with financial performance of commercial banks in Kenya

The results agree with the behavioral theory on leadership especially in regard to the impact of transformational and democratic leadership on organizational performance. For example, the results concur with the theoretical assertion that transformational leadership positively influences performance since leaders encourage innovation, challenge employees towards higher objectives as well as motivate employees through individualized consideration, an assertion also supported by Rawashdeh et al. (2021). In addition, the findings also support the theoretical assertion that democratic leaders positively impact organizational performance through promotion of teamwork, collaborative effort and innovation, an issue also supported by Chua, Basit and Hassan (2020) and Uysal (2021). Though the behavioral theory is not clear about how autocratic leaders influence organizational performance, it seems to suggest that the style could negatively impact financial performance through discouragement of innovation and ideas generation (Northouse et al., 2015). Consequently, this study seems to contradict this aspect of the theory. However, in regard to laissez faire leadership, this study agrees with the theoretical assertion that lack of direction from laid back leaders may negatively impact organizational performance.

The study also agrees with the empirical studies such as Rowold and Heinitz (2007) who established that transformational leadership style improved on the impact of transactional leadership on performance of employees and company profitability. On the other hand, the findings partially agree with Zeb (2015) who found a positive correlation between democratic,

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autocratic, laisez-faire and transformational leadership style and financial performance of public sector organizations in Pakistan. In addition, the findings by Khan, Nawaz and Khan (2016) as well as Khan and Adnan (2014) to the effect that transformational and transactional leadership style have a positive impact on financial performance while laissez-faire style had a negative impact are fully supported by the findings of this study.

In regard to banking and financial services, the study agrees with Schaubroeck et al., (2007) who found out that transformational leaders were responsible for improved financial performance by banks in the United States of America and Hong Kong but contradicts Wang and Rode (2010) who did not find any significant relationship between transformational leadership and organizational performance. It is also consistent with Walela and Okwemba (2015) who found a positive correlation between democratic and transformational leadership style and the financial performance of microfinance institutions in Kenya. The results however partly contradicted, Ojokuku, Odetayo and Sajuyigbe (2012 who observed that democratic and transformational leadership had a positive significant influence on financial performance while autocratic leadership style had a positive effect though statistically insignificant effect on the financial performance of the commercial banks.

5.1 Conclusion

The study concludes that leadership style has a positive and significant relationship with financial performance of commercial banks in Kenya. Further, the findings showed that transformational leadership has a positive and significant relationship with financial performance of commercial banks in Kenya. Democratic leadership style has a positive and significant relationship with financial performance of commercial banks in Kenya. Autocratic leadership has a positive and significant relationship with financial performance of commercial banks in Kenya. On the other hand, laissez-faire leadership has a negative and significant relationship with financial performance of commercial banks in Kenya.

6.1 Recommendations

This research recommends that commercial banks in Kenya should incorporate effective transformational and democratic leadership style in their management development programs. This will be done through staff training and development using both in-house and open training programs as well as continuing development programs. Banks should join hands with training institutions such as Kenya Institute of Bankers and Kenya School of Monetary Studies amongst others in regard to development of leadership modules under their training programs. This could be undertaken under a joint initiative akin to an open innovation. The foregoing will promote high levels of creativity, flexibility and innovation in major operations of the banks. Additionally, transformational leadership style will allow the management to include employee involvement in major decision-making process in the bank leading to low resistance to changes in major operations. The banks' top management shall be trained on how to adopt transformational and democratic leadership styles to improve the bank performance. This is because transformational leadership strategies allow the managers not only to motivate but also to inspire their employees leading to high staff motivation as well as productivity increase in the bank.

This study shows that there is a link between the leadership style and the establishment of a performance culture within commercial banks in Kenya. The validity of this study is upheld by the consistency with which qualities of transformational leadership and democratic leadership match

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the requirements of enhancing financial performance. Transformational leaders involve followers in distributive leadership through which they learn how to learn, adapt and lead change while Democratic leadership allows for a holistic and integrated regulatory policy approach. Stakeholders within the banking industry should consider leading the sector into a non-traditional direction through an emphasis on understanding leadership behavior and its impact on results. Since leadership style can be learnt stakeholders within the banking industry should consider offering training programs to managers and directors on leadership style as a means to enhancing organizational performance. The stakeholders should also consider holding national conferences on innovative leadership models as a way of supporting creativity and innovation within the banking industry. The seminars should be geared towards open innovations as well as guiding leaders on how to apply leadership style, models and behavior as a catalyst for change, creativity and innovation.

At the policy level, Central Bank of Kenya and The National Treasury should lead government efforts geared towards ensuring that the regulatory framework is supportive of development of appropriate leadership skills while at the same time ensuring that the safety and soundness of the banking sector is safeguarded. Central Bank of Kenya should consider reviewing the prudential guideline on corporate governance as well as the fit and proper requirements in order to include aspects of democratic and transformational leadership.

7.1 Suggestions for Future Research

The study focused on all the commercial banks in Kenya. A study on the impact of leadership style on financial performance should be conducted in other sub-sectors of the financial services industry such as insurance, microfinance as well as Savings and Credit Cooperatives. Future research can also focus on other leadership styles such as ethical and servant leadership as well as other leadership theories such as leader member exchange and theory X and theory Y leadership amongst others. In addition, future research needs to look at other performance outcomes like organizational learning, customer satisfaction and net promoter score as the dependent variable. Further research can also be undertaken on the topic using a different research design like longitudinal. Further research may also focus on leadership responses during the COVID 19 Pandemic and the impact of those responses on financial performance of commercial banks.

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