Effect Of Leadership Behavior On The Performance Of Micro-Financial Institutions In Kakamega County.

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Abstract: Leadership behavior is key factor to performance of any organization. It is a human factor that enables a leader to influence the subordinates towards a given goal. Despite the increased emphasis on strong leadership behavior in teams, there is a lack of integration concerning the relationship between leader behaviors and performance outcomes. Use of task-focused behaviors is related to perceived team effectiveness and productivity. The problem manifests itself in multiple ways in which senior managers are commonly in the 'wrong position' relative to their strengths and therefore the positions remain vacant. There is little middle level management talent which in turn leads to a high turnover at all levels. This study sought to find out how leadership behavior affects the performance of micro-finance institutions. The study adopted a correlational study design which helped to establish the associations between and among the study variables.

Index Terms: Leadership behavior, Microfinance, performance,

CHAPTER ONE

1.1 Background to the Study

Leadership behavior is a human factor that builds a group together and motivates it towards given goals or may discourage its success. It's difficult to see how an organization can survive without effective leadership in place. A leader creates an environment in which creativity and innovation thrive and in which employees feel like they are heard (David 2008). It is as special form of power based on the personal qualities of the leader to win the follower's compliance voluntarily in a broad range of matters (Etzioni, 2001). According to the Micro-finance report (2011), Sound leadership behavior is a critical factor in most of the organizations. It has led to a negative impact on the organization and loss of productivity as employees decides to leave their jobs thus causing high turnover. On contrary, Westernman and Yamamura (2000) in their study indicated that for employees to remains in the organization, positive consequences such as loyalty, and increased opportunities for internal vacancy, chance to learn new skills is relevant. At the end of July, 2009, an estimated 8.8 million worth portfolio of MFIs that operate in Kolar (India) was reportedly involved in defaults. Leadership behavior was considered as the root cause which weakened relationships among the employees. In 2006, there was a crisis on Asian MFIs which had a number of implications. It resulted in fewer job opportunities, profitability of the MFIs fell due to reduced demand of their products. High performance leadership teams understand that their collective and individual behavior casts a positive or negative shadow across the entire organization. And since employees tend to take their cues on what is important and how to behave from their leaders, negative behavior at the top creates negative behaviors far down into the organization, adversely impacting performance and productivity. Whether the leadership team is aware of it or not, their behavior casts a powerful shadow far into their organization (Norton, 2001). In their work, Seta and Baron, (2006) noted that actions speak louder than words. People watch the behavior of their leaders for clues as to what is accepted and what is not. When the leadership team says one thing and then behaves differently employees quickly figure out the real story. One of the major obligations of leadership is integrity between words and deeds. And an even more powerful shadow cast by the senior team is how they interact with each other Mconnel&Servaes, (2000). Data from Micro-finance institutions in Kakamega County reveals that performance in many of this organization has been minimal with huge discrepancy with commercial Banks. Leadership behavior was noted to be among the major contributing factor. Unfavorable working conditions enhanced by weak leadership behavior have dominated the industry. This has led to stressful working conditions associated with both short and long term individual reactions including negative effect (Zohar, 2009), job dissatisfaction (Jackshon&Schulaer 2005), turnout (Maslach, Schaufel&Leiter, 2009), physical strains and even increased mortality rates.

Statement to the Research Problem

Lorry (2002) established that most of organization's performance is usually seen as a function of organization's leader behavior. This links several administrative and managerial themes which include the extent to which the organization identifies strategic goals and the degree to which they are communicated and shared by each

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employee. Purcell(2003) conducted a research among 12 MFIs to establish how leadership behavior impacts organization's performance. The outcome indicated that most of successful MFIs had what the research called 'the big idea' referring to having the right leadership in place. The organizations had clear vision and a set of integrated values which were embedded, collective, measurable and manageable. They were concerned with sustainability of performance based on the leader behavior. According to the study, clear relationship existed between the performance of organization and the leader behavior. The industry has a wider market coverage due to the characteristic nature of the target clientele. However, the growth rate of this institutions is insignificant. Most of the institutions have experienced huge turnover in their programme. However, there is little middle level management talent which in turn leads to a high turnover at all levels. Many research studies have been done on leadership behavior and performance of MFIs in many parts of the world. However, up to date, the impact of leadership behavior on performance of MFIs in Kakamega County is unknown and undocumented. MFIs are considered a critical concern since they serve ordinary Kenyans who are the majority. They also have a great impact on the G.D.P of a nation but are faced with a lot of leadership behavior and performance problems. On this basis, research hypothesis of the study will be linked to the stated gaps and will seek to establish if and how leadership behavior impacts performance of MFIs.

Research objective
The following research objectives guided the study; To establish the effect of leadership behavior on the performance of micro-finance institutions.

Hypothesis to the study
Leadership behavior has no significant effect on the performance of Micro-finance institutions.

Justification of the study
Most of microfinance institutions were started by people who had a common interest. Due to this, they dominate decision making and overall management process of these institutions. Limited participation by subordinates in effective decision making process is evident. Thus, it is hoped that the result of the study may help the management in micro-finance institutions in policy formulation and implementation for better performance. This research may also contribute to the knowledge gap and add value to the existing literature on performance of micro-finance institutions. Finally, it may stimulate further research on leadership and performance of micro-finance institutions both locally and globally.

Scope of the study
The study was carried out in Kakamega County. There are thirteen MFIs in the county which formed a sampled for study. This was possible because of their accessibility. Although there are many factors that affect the performance of MFIs, the study only concentrated on the leadership behavior. The leadership behavior considered included; participative, transformational and transactional.

Conceptual framework
In this study, leadership behavior was the independent variable, organizational performance was depended variable

LITERATURE REVIEW
This chapter has reviewed literature on research topic and it included leadership behavior and its effect on the performance, different leadership styles and their contribution to performance and organizational factors affecting performance.

Leadership
The ability to lead effectively is one of the keys to being an effective manager. Managers must exercise all their functions in order to combine human and material resources to achieve organizational objectives. The key to doing this is the existence of a clear role and degree of discretion or authority to support manager's actions. People find to follow those whom they see as providing means of achieving their desired wants and needs (Weinrich 2006). Pearce and Robinson (2005) noted that a leader envision the future, communicates the course of action and inspires organizational members towards that future of an organization. Jeremy, M. (2007) pointed out that leaders need to instill values whether they are concerned with quality, honesty, calculated risk or having concern for employees and customers. Every group of people that performs near its total capacity has some persons who are skilled in the art of leadership. This skill is constitutes four major ingredients; Ability to use power effectively and in a responsible manner, ability to comprehend those human beings has different motivation forces at different times and different situations, ability to inspire, ability to act in a manner that will develop a climate conducive to responding to and arousing motivation.

Democratic or Participative style and performance
White and Lippertt (2000) noted that this style of leadership is also known as centered leadership. Under this style, leaders consult the group and solicit opinions and participation in decision making. They confer authority to the group and after their consultation, decision are taken (Sagimo, 2002). Effective leaders manage diverse and multi-faceted organizations by making good decisions (Tara Duggan, 2005). This behavior typically increases job satisfaction, employee retention and skill development for the entire staff. He further noted that, leaders who use democratic approaches to solving problems tend to benefit from involving stakeholders in identifying the issues and finding solutions to the complex problems. This helps them get things done through others and assuring them of a continued support in future. According to Smith (2002), participation of subordinates leads to creativity and develops a sense of confidence among the subordinates leading to job satisfaction. Participative leaders retain their leadership role by making informed decisions that keeps the company successful. Tara Duggan, (2005) asserts that by asking for input from subordinates, they get relevant data to analyze and are able to identify trends in their industry. Thus, they learn how to take actions that manages daily operations more efficiently. This ensures a long term impact as well as balancing performance against threats

that may oppose growth. Sagino (2002), points that in handling risk, leaders are supposed to handle company's operations by encouraging subordinates to handle uncertainty, face adversity with composure, understand others by showing empathy and maintaining performance. They develop their skills and knowledge by studying behavior of successful managers in completing specific tasks that will help them achieve higher performance in attaining their set objectives. In his work, William Sayar, (2005), says that participative leaders recognize that building relationships and establishing effective team usually leads to sustainable creative solutions to performance. Effective leaders maintain their competitive edge by soliciting quality management techniques that involve subordinates in root cause analysis which can help. Two theoretical models are widely used to explain the effect of participative leadership behavior of superiors on subordinate's work performance. The motivational model holds that more opportunities to participate in decision making provides subordinates with greater intrinsic rewards from work (Conger & Kanungu, 2002) and higher levels of psychological empowerment (Spreitzer, 2005), which may result in improved work performance. The exchange based model asserts that since participative leadership behavior sends a message that the superior has confidence, concern and respect for the subordinates and such leadership behavior is likely to foster higher levels of trust in the superiors (Dirks & Ferrin, 2002). As a result, subordinates are likely to reciprocate the same to their superiors as well as their organization by exhibiting higher level of work performance (Cohen, 1992; Zallars and Tepperr, 2003). To date, the majority of studies have used the motivational and ex-change based models interchangeably to explain the association between participative leadership behavior and work behavior (Mulki, Jaramillo and Locander, 2006; Spreitzer, 2007). In the empowerment literature, participative leadership behavior has been predominantly treated as a source of intrinsic motivation and psychological empowerment (Lee and Koh, 2001; Quinn & Spreitzer, 2007; Spreitzer, 2005). In the organizational justice literature; however, the same leadership behavior has often been seen as a type of procedural justice which fosters trustful exchange between supervisors and subordinates (Colquitt and Conlon, (2001); Pillai, Schriesheim, and Williams, 1999; Tremblay and Rousel, (2001).Research has shown that employee job level may influence perceptions of participative leadership behavior. For instance, past studies have suggested that while employees on higher positions tend to attach more value to sense of control and autonomy, lower level employees such as clerical staff and front-line place more emphasis on the quality relationships with colleagues and supervisors (Cohen, 2002; Kallenberg and Griffin, 2004). Moreover, research on attritibution theory and social information processing theory suggests that due to their differences in work related values and needs, managers and employees may interpret the same organizational practice and react to information related to such practice in qualitatively different ways (Cha and Edmondson, 2006). Based on such views, it's possible that participative leadership behavior may be linked to work performance through different mechanisms for subordinates at different hierarchical levels. Participative leadership has often been regarded as a way to empower employees by practicing managers. When participative leadership can effectively improve the work performance of low-level employees and managers may assume that empowerment works which may cause misunderstanding of the needs of these non-managerial subordinates. Participative leadership may influence work performance through generating high levels of trust in their immediate supervisors rather than inducing psychological empowerment. Thus, a lack of understanding of the mechanisms of how participative leadership influences performance may cause misinterpretation of the function as well as the usage of participative leadership in practice, providing no reliable guidance for practitioners to develop appropriate training and intervention practices that help managers to exercise participative management for different levels of employees.

Explanatory models of participative leadership

The idea that the participative of management is likely to enhance the performance of subordinates was suggested by Barnard (2002) and has been expanded and developed subsequently by many researchers. Two theoretical models underlie the effects of participative leadership behavior of superiors on subordinates' work performance.

Motivational model

The motivational model posits that increasing the degree in which subordinates participate in decision making may increase performance through enhanced motivation (Senior, 2006). Prior research suggests that the participative behavior of superiors plays a vital role in providing subordinates with experience of intrinsic motivation, feelings of self-worth, and a sense of self-determination (Deci, Connell and Ryan, 2009). This type of leadership behavior tends to foster the feelings of "psychological ownership" of subordinates, increase subordinates' feelings of self-efficacy, control, and reduce their sense of powerlessness (Arnold, Arad, Rhoades, &Drasgow, 2000). Psychological empowerment has been conceptualized as a form of intrinsic motivation to perform tasks manifested in four cognitive dimensions: meaning, impact, competence and self-determination (Conger & Kanungu, 2002; Spreitzer, 2005; Thomas &Velthouse, 2004). Accumulating empirical evidence shows that participating leadership behavior is associated with increased work outcome through induced intrinsic motivation and psychological empowerment. For instance, the results of meta-analysis conducted by Eby, Freman, Rush, and Lance, (2006) revealed that intrinsic motivation mediates the link between the participative management behavior of supervisors and the organizational commitment of employees. Moreover, Koberg, Boos, Senjem, and Goodman, (2008) found that, among other factors, leader approachability was positively related to psychological empowerment which leads to increased self-rated productivity. Some studies also demonstrate that psychological empowerment could mediate the link between participative climates, work attitudes and performance (Careless, 2004; Seibert, Silver, &Randolf, 2004; Sparrawel, 2004). Recently, Ahearne, (2005) has shown that participative leadership behavior helped to increase salesperson's self-efficacy which in turn was associated with sales performance and their customers' service satisfaction. Furthermore, participative leadership may also induce extra-role work behavior such as Organizational Citizenship Behaviors (OCBs) through its effect on psychological empowerment. When employees engage in intrinsically motivating tasks, they may find the performance of job-related activities to be more rewarding and as a result, they are motivated to exert greater effort to achieve their task objectives Organ (2006). Indeed, empirical OCB research has generated some highly consistent results showing that intrinsically motivating tasks are more conducive to citizenship behaviors. John, W. & Sons L.J, (2010), argued that it is a plausible that participative leadership behaviors may induce feelings of meaningfulness, sense of ownership and responsibility for work outcomes. As a result, employees will be willing to do whatever it takes to make the organization successful.

Exchange-based model

The exchange-based model focuses on the reciprocal relationship between superiors and subordinates. Based on social exchange theory (Blau, 2004), it suggests that when employees are treated well by superiors, they are more likely to reciprocate the same by showing high level of performance or even by putting extra effort to contribute to their organization (Blau, 2004).The degree of employees' trust in their immediate supervisors has often been used to indicate the quality of reciprocal relationship between supervisors and subordinates (Zallars&Tepper, 2003). Participative leadership behavior could make employees feel their superiors treat them with fairness (Jung & Avolio, 2000; Pillai 1999), consideration (Dirks & Ferrin, 2002), respect and dignity (Bijlsma& Van de Bunt, 2003), which are conducive to high level of trust in superiors. With a high level of trust in supervisor, the employee is more likely to make efforts to accomplish work tasks and exhibit citizen behaviors.

Transactional leadership

Bass and Avolio (2004) described transactional leadership style as being based on traditional bureaucracy authority and legitimacy. Transactional leaders are able to entice subordinates to perform thereby achieve desired outcomes by promising them rewards and benefits for the accomplishment of tasks (Bass, 2000). Bass (2000) described transactional leader relationship with the subordinates as having three phases. Firstly, he recognizes what subordinates want to get from their work and ensures that they get what they want given that their performance is satisfactory. Secondly, rewards and promises for rewards are exchanged for employees' efforts. Lastly, the leader responds to his employees' immediate self interest if they can be met through completing the work. Transactional leaders are those leaders who implement structures and are understanding towards their employees (Senior, 2006). In his work, Bass (2000) indicates that transactional leaders generally reflect on how to marginally improve and maintain their performance, how to replace one goal to another, how to reduce resistance to particular actions and how to execute decisions. This form of leadership emphasizes the clarification of goals, work principals and standards, assignments and equipment (Bass, 1999). Transactional leaders focus their energies on task completion, compliance and it depends on organizational rewards and punishments to influence employees performance reward being contingent on the followers carrying out roles and assignments as defined by the leader (Bass and Avolio,2000; Mester, 2003). In other words, the leader rewards or disciplines the follower depending on the adequacy of the followers' performance (Senior, 2006). The transactional leader is known to change promises for votes and works within the framework of the self-interest of his or her consistency (Bass 1999). The transactional leaders pursues a cost-benefit, economic exchange to meet subordinates' current material and physical needs in exchange for contracted services rendered by the subordinates (Bass, 2000). Therefore, transactional leaders are thought to have an exchange-based relationship with their followers (Senior, 2006). Bass (2000) suggests that transactional leader uses satisfaction of lower order needs as the principal basis for motivation. The focal point of transactional leader is on role elucidation. The leader assists the follower in understanding precisely what needs to be achieved in order to meet the organization's objectives (Bass, 1999). Leaders who display a transactional leadership style defines and communicate the work that must be done by their followers, how it will be done, and the rewards their followers will receive for completing the stated objectives (Bass and Avolio 2003, waldman and Yammarimo, 2001; Meyer and Botha, 2000). Transactional leadership occurs when the leaders approach followers either to correct a problem or to establish an agreement that will lead to better results. Additionally, transactional leadership concerns the style of leadership where the leader makes work behavior more instrumental to followers to reach their own existing goals while concurrently contributing to the goals of the organizations (Tichy and Devanna, 2006). In a stable environment, transactional leaders manage what they find and leave things much as they found them when they move on (Howell and Avolio, 2007). However, the current competitive business environment requires a new style of leadership in order to ensure the organization's survival and performance, namely transformational leadership (Brand, 2000).

Transformational leadership

Transformational leadership has emerged as one of the most extensively researched leadership paradigms to date (Bass, 2000). Transformational leadership concerns the transformation of followers' beliefs, values, needs and capabilities (Brand, 2000). Transformational leadership teaches their followers to become transformational leaders in their own right (Bass, 2000). Transformational leaders encourage subordinates to adopt organizational vision as their own through inspiration. In addition, it is widely accepted that transformational leadership occurs when people engage with each other in such a way that leaders and followers raise each other's levels of motivation (Blau, 2004). Furthermore, these leaders attempt to elevate the needs of the followers in line with the leaders own goals and objectives. Transformational leadership communicates a vision that inspires and motivates a person to achieve something that is extra-ordinary. Hughes, Ginnett and Curphy (2004) believe that transformational leadership also has the ability to align the people and system so that there is integrity throughout the organization. Moreover, transformational leaders are responsible for motivating their employees to go beyond ordinary expectation by appealing to their higher order needs and moral values. This leadership has consistently shown advantages on a range of individual and organizational outcomes such as objectives and performance (Bass, 1999). Through setting more challenging expectations and raising levels of self and collective efficacy, such a leadership style typically achieves significantly higher performance and commitment levels from their employees (Barling, Kelloway and mester, 2003). While transformational leadership inspires common goals and inspirations that tend to transcend followers' individual needs and results in the attainment of major transformation in work-place effectiveness, it would be narrow-minded to view transformational leaders as the exclusive participants in the process of leaders-follower exchanges. Transformational leadership extents transactional leadership to attain higher level of subordinates performance but achieves addition by utilizing various motivational methods and diverse types of objectives and goals (Bass, Avolio and Goodheim, 2003). Barling, (2000) found that subordinates' organizational commitment was positively correlated with transformational leadership behaviors of supervisors. Empirical literature indicates that transformational leadership is positively connected with leaders' effectiveness (Bass, 2003). Research by Orodho (2004) shows evidence that transformational leadership is an extension of transactional leadership and therefore these two leadership styles are not mutually exclusive as a leader may display a varying degree of transactional or transformational leadership (Bass, 2000).

2.7 Relationship among leadership styles
Tannenbaum and Schmidts (1967) portrayed a continuum of leadership behavior. It depicts a range of behavior pattern as different styles are appropriate in different situations in which autocratic, democratic and laissez-fair styles are identified across the continuum from boss-centered to subordinate centered leadership.

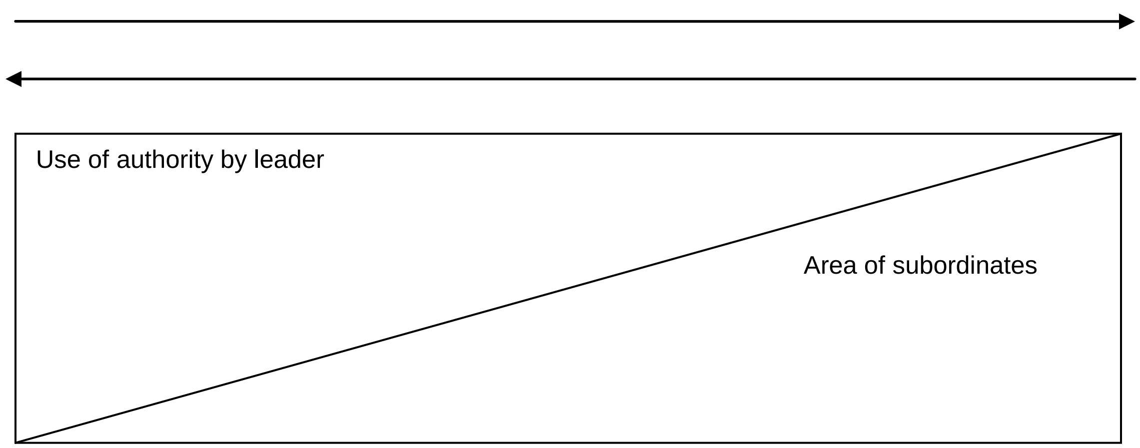

Fig.2.1 Continuum of leadership behavior

Autocratic Democratic Lesseez-faire
Leader centered Participative Employee centered

1 2 3 4 5 6 7 8 9

Source: *Tannebaum and waren (1967)*

The actions seen on the extreme left characterizes a leader who maintains a high degree of control and more production and performance. The actions in the right characterize a leader who releases a high degree of control. Neither extreme is absolute. Below is the synopsis of leadership behavior as looked at a long the numbers 1 to 9 as per the Tannebaum and Waren (1967). The first number on their scale, the leader makes decision and announces it. Here, the leader identifies the problem, considers alternative solutions and chooses one of them. He then announces the decision for implementation and provides no opportunity for comments. Force or threats may be used if necessary. The leader 'sees' his/her ideas on the second number on the scale. Although the leader takes the responsibility of identifying the problem and making the decision, he/she, however explains and convinces subordinates why that decision had been taken. In doing so, he/she recognizes the possibility of resistance and seeks to oppose it. The leader seeks 'Ratification' at the third number on the scale. The leader has arrived at a decision but does not need comments, although he/she asks the group to support the decision. At the fourth number, the leader seeks confirmation. He has made a decision but pretends to seek opinion while his /her decision remains intact. At number five, the leader presents ideas and invites questions. The leader has arrived at a decision and seeks acceptance by providing an opportunity for employees to get further explanation. It's a'glue and take game.' The leader makes tentative decision that is subject to change at the sixth number. This provides employees with an opportunity to exert some influence on the decision. But problem definition remains with the leader. The leader presents the problem, gets suggestions and arrives at a decision at the seventh number. Up to this stage, the leader has always coming with ready made decisions. Now the employees get a first chance to work at the problem closely with a view of making decisions. The leader's role remains only at that of identifying the problem and participating to influence the solution (Weihrech*et al* 1993). They further arrived at the eighth number. The leader only defines limits but delegates the group to decide. The full responsibility of decision making lies with the group without leaders' influence. The leader however, determines the final goal and retains some element of directing. The leader leaves them to manage at ninenth number. This behavior allows for exercise of extreme degree of group freedom. The leader almost loses control which is exercised by the group's informal leader.

2.8 Effect of leadership behavior on subordinates' performance

Leadership is the human side of managing, that is, influencing-followership or discipleship towards achieving desired objectives (Armstrong 2006). The manager is concerned with controlling the work of other people. There are reasons why the manager exercising little more than formal leadership can be successful. They lie in the way managerial functions of planning, staffing, directing and controlling are carried out (Cole 1996). A plan whether is single purpose or one for meeting overall directives is of importance to the behavior of staffing. If the manager is successful in laying down rational ways of meeting group goals, he/she has gone a long way in encouraging rational behavior on the part of the group. Moreover, he creates a framework which makes work both meaningful and satisfying the members of the team (Sagino 2006). Organizing involves assembling necessary resources to do the job and a manager who fails in his leadership is often one who cannot plan or organize the work of the group. Organizing requires knowledge of techniques used in the work. A leader at managerial level needs good job knowledge so that he/she can properly organize and direct the work (Lowry 2002). According to Ian and Bearwell (2004), leadership behavior depends on the situation and not inheritance. Each manager will have a natural style of leadership. This style will be set by the individual's personality, upbringing, beliefs and previous work and social experience. But while all this factors influence and shape the style, it is still a learnt behavior pattern. Most managers were not born with natural leadership skills or hereditary traits, but learnt them. The manager's natural style may or may not be effective in meeting the needs of the staffs and the organization. Hess and Juliet (2002) observed that a leader who is likely to be the most effective will be the one who meets the needs of staffs in the particular situation they find themselves in. Moreover, an effective manager can adopt his leadership style to suit the demands of differing situations. This is achieved by always being aware of a particular need each staff member has which is obstructing them in carrying out specific task. It means the manager must be constantly aware of the strengths and weaknesses of each staff member relevant to the task they have to perform. It is very important to asses an individual against a particular situation since with a new task, their level of skills and ability is likely to vary, therefore, the manager's leadership style in dealing with this people should also vary. To maintain the same style for all individuals in all situations is to overlook and seriously ignore the capabilities of the team (Sheikh 2006). The manager who always relies on Autocratic authority is likely to overlook the importance of his staff achieving their goals. He will be oblivious of the complexities of staff and their behavior. In certain situations, however, the autocratic leaders may achieve success, particularly where there are apathetic staffs. Conversely, the manager who utilizes his/her delegates as much as possible may assume that as they have shown competence in some duties, they will compete in all duties. By leaving the staff do their own resources, he/she will probably be placing some of them under considerable pressure which they will be unable to cope with. In many situations, the manager must select performance goals for his/her staffs. The selection of goal is important for they have a direct effect on morale. Leithwood and Kenneth (1994), in their study found out that a manager who is effective in selecting goals which will be assessed as meaningful by his/her staff is much more likely to succeed than the one who fails to define goals. It's important for a manager to consult his/her staffs when new plans are announced by higher management. This gives staffs time to adjust as it involves them in the plan's implementation and allows them to make any protests in good time about details they do not agree with.

2.9 Leadership style and performance level

Sagino (2006), found a link between leadership and performance. The study established that leadership is a management influence process and not just being nice or good to others.A successful leader-manager can neither be primarily characterized as a strong leader or as a permissive one. He concluded that performance (P) is a function of competence (C) of subordinates and motivation (M). That is

$$P=F(C*M)$$

According to him, leadership is the managing of people in order to influence their performance by inducing them to work willingly. This suggests that a leader is a motivator, persuader, effective communicator, listener, counselor, negotiator and delegator. Mounton and Blake (1964) established a link between concern for people and concern for performance. That a manager who is also an effective leader is termed the 'manager-leader' who is rated 9.9 on the managerial grid. They pointed out that this type of manager has the following qualities: visionary about what people can achieve as a team, Shares vision and acts, proactive in most relationships, stimulates excitement and actions. They argued that high level performance depend on the peoples' heart and mind even more than the hard work and capital. James smith (2002) observed that managers can create positive work attitudes by; Firstly, ensuring that task to be performed and objectives to be achieved in each job are effectively communicated and understood, particularly the effect of quality and customer satisfaction. Secondly, sharing information of performance indicators. Thirdly, promoting team activities, such as performance improvements, solving departmental and cross functional problems. Wendell (1985) pointed out that reward management is the responsibility of leadership. Excellence in organizational performance depends on the ability the company to attract and retain right caliber of people and provides them with both financial and non-financial incentives and rewards which aims at maintaining and increasing their motivation. A good reward system must provide for competitive levels of remuneration and ensures that rewards are linked explicitly to individuals' contribution to the company. Employees must feel fairly treated and are paid according to their worthiness based on the comparisons with the companies offering similar jobs. Wendells (1983), Pointed that a good reward should aim to; ensure that the organization can recruit and retain quality staff at all levels and provide reward for good performance.

2.10 Performance

Ultimately it is the individual employee who either performs or fails to perform. In order for an organization to perform, an individual must set aside his personal goals, at least in part, to strive for collective goals for the organization (Cummings and Schwab, 2003). In an organizational context, the very nature of performance is defined by the organization itself (Cummungs and Schwab, 2003). Employees are paramount important to the achievement of any organization's goals. Thus, effective leadership enables greater participation of the entire work force and can also influence both individuals and organizational performance (Bass, 2007; Mullins, 2006). The success of an organization is reliant on the leader's ability to optimize human resources. A good leader understands the importance of employees in achieving the goals of an organization and that motivating these employees is important for the achievement of the goals. To have an effective organization, people within the organization need to be inspired to invest themselves in the organization's mission. They need to be stimulated so that they can be effective (Skarlicki and Latham, 2005). To have an effective organization, there must be effective and stimulating relationship between people involved in the organization (Paulus, Seta and Baron, 2006). It has been widely accepted that effective organization require effective leadership and that organizational performance will suffer in direct neglect of this (Fiedler and house, 1988). Furthermore, it's generally accepted that the effectiveness of any set of people is largely dependent on the quality of its leadership - effective leader behavior facilitates the attainment of the followers' desires which then translates in effective performance (Fiedler and House, 2008; Maritz, 2005; Ristow, *et al* 2005). Preliminary research undertaken by Fiedler and House, (2004) in South African context found that outstanding leaders' behavior in terms of effectiveness, are perceived to show strong performance but democratic and participative leadership style are seen as the agents of change and visionaries who increase organizational performance. Maccoby (2009) concludes that the need of firms to flourish in the world of escalating competitiveness of technological advances, government regulations and changing employee attitudes requires an advanced level of leadership more than ever before. According to Bass (2000), in the modern business environment, much research has proved that leaders make a difference in their subordinates' performance. Winning leaders understands what motivates employees and how the employees' strengths and weakness influences their decisions, actions and relationships. There is an agreement in the literature (Miritz, 2005; Bass, 1997) that leadership behavior is a critical factor in the success or failure of an organization. Excellent organizations begin with excellent leadership. Leaders are effective when the influence they exert over their subordinates works towards achieving organizational performance (Jones and George, 2000). Performance is an integral part of effective human resource management and development strategy (Hellriegel, 2004). Performance is an ongoing and joint process where the employee, with the assistance of the employer, "strives to improve the employee's individual performance and his contribution to the organization's wider objectives" (Hellriegel, 2004). Performance incorporates all those aspects of human resource management that are designed to progress and/or develop the effectiveness and efficiency of both the individual and the organization (Amos, 2004). Performance begins and develops with the employee's lucid understanding of the organization's expectations (Hater and Bass, 2005). To elevate and sustain the level of work performance, managers must look past individual or team performance to a larger arena of play (Campbell, McCloy, Oppler and Sager, 2003). The success of any management system is reliant on the commitment/support of an organization's management. Performance must be seen to reward personal development and achievement of any employee (Hendrey, 2005). Within the performance management field itself, it is important that the targets are viewed fair and equitable across all groups. It is imperative that employees have confidence in their work and recognize that management supports them (Cherrington, 2004; Baird, 2003). A good performance system motivates employees to better their performance, promotes self motivation, builds and strengthens relationships via communication between employees and managers (Baird, 2006). There are two main purposes driving performance. Firstly, there are operational reasons which lead and control the system (Temple, 2002). Secondly, on the cultural side, the system can feature as part of the overall drive to build a more open relationship with employees (Temple, 2002). The performance management system sets out to communicate the link between an organization's mission, strategic direction and the required employee performance (Armstrong and Baron, 2004; Foot and Hook, 2007). A successful performance is one that requires full participation between employees and managers through effective communication and goal agreement, resulting in complete common understanding and not unfounded expectations (Campbell, 2003).It's a medium system for managers and employees to develop an understanding of what work the organization requires, the manner in which work should be accomplished, and to what extent it has been achieved. Employees should be empowered and receive support from their manager without removing any of the employee's responsibility (Armstrong and Baron, 2004). As the performance of an organization is dependent on the equality of the workforce at all levels of the organization (Temple, 2002).

RESEARCH METHODOLOGY

This chapter discussed the research design, study area, study population, sample size and techniques, instruments for data collection, reliability and validity of research instruments and data analysis.

Research design

Correlation study design was used in this study. It established the relationship between leadership behavior and organizational performance. Correlation studies may be classified as relational studies or as predictive studies. It is most suitable for predicting the presence or absence of the relationship between dependent variable and independent variables. Performance was measured using organization's achievements while each of the independent variable was manipulated to fit Pearson's correlation model. The variables in production function were considered in determining the relationship between the dependent variable and the three independent variables. The coefficient of correlation was measured using Pearson's product moment.

Area of study

The study was done in Kakamega County. The county has six administrative divisions namely; Lurambi, Ikolomani, Navakholo, Ileho, Shinyalu and municipality. It has several micro-financial institutions which offer financial services to the residents within the area.

Study population

The study population was divided into target population upon whom the findings of the study was generalized and accessible population from whom a sample of respondents were drawn to participate in the study. The targeted population constituted employees of the MFIs who are the stakeholders in their respective institutions. The accessible population comprised 224 credit officers and 13 line managers from the thirteen micro-finance institutions in Kakamega County. Two of micro-finance institutions that participated in a pilot survey were excluded from the actual research.

Sampling procedure

The study adopted purposive sampling to get the 13 line managers who had privileged access to information that was vital to addressing the study objectives. Simple random sampling technique was employed to get the 57 credit officers who directly interact with clients on day to day basis. This sampling technique was adopted given the significantly large number of credit officers within the study area.

Sample size

In this study, the population comprised of the employees from micro-finance institutions. Within this, respondents included line managers and credit officers. Thirteen unit managers were selected from the identified institutions. The managers were relevant in providing information concerning organizational performance of their respective institutions. On the other hand, Out of 224 credit officers from respective institutions, 57 officers were selected to participate in the study. Using proportionate random sampling procedure, each MFI was required to give 10% to 30% of the credit officers to participate in the study. According to Kerling, (2008), a sample between 10% and 20% of the target population is ideal to participate in the study.

Data collection instruments

The study adopted the use of questionnaires and interviews. Primary data was gathered using self-administered questionnaire Questionnaires were used because they were the most convenient and cost effective in collecting data. Questionnaires were administered using the drop-and-pick method. The selected MFIs were approached by the researcher and introduced himself to the key informants before explaining the objective of the study and thereafter, left the questionnaires with the respondents to be filled and be collected afterwards.

Reliability of research instruments

To ensure that the instruments used in the study were reliable, Cronbach's alpha was computed at a score of 0.787. Sekaran (2004) asserts that a reliability coefficient within 0.70 is acceptable while 0.80 and above is regarded as good. A pilot study was conducted in two institutions outside the study area and subjects of measure revealed consistence results.

Data Analysis

Descriptive statistics were calculated to describe the demographic characteristics of the respondents under study and presented in form of frequency tables, pie charts and percentages. Inferential statistics used included Pearson Product Moment Correlation Coefficient, simple regression. Pearson Product Moment Correlation Coefficient was used to determine the relationship and magnitude of influence among the study variables. Statistical analysis was performed using the Statistical package for the Social Sciences (SPSS). All hypothesis were subjected to a two tailed test at a 95 per cent confidence level (A level of significance, α= 0.05).

CHAPTER FOUR PRESENTATION, INTERPRETATION AND DISCUSSION OF FINDINGS

This chapter contains a summary of data findings and their interpretation presented in the form of descriptive and inferential statistics on the effect of leadership behavior on the performance of micro-finance institutions in Kakamega County.

Pre-analysis data testing

The collected data was tested using Kolmogorov – Smirnov (K-S) statistic to ascertain normality and uniformity in data in distribution. K-S is a non-parametric test that compares the cumulative distribution function for variables within a specified distribution (Malhotra, 2007). The overall outcome of K-S test using normalized Z statistics for all the study variables obtained at the level of significance of (.000) (2-tailed) indicated that the collected data was normally and uniformly distributed. Such normal and uniform distribution made it safe for the researcher to use statistical analysis models and procedures that assume normality of the distribution of data like correlation coefficients.

Demographic Characteristics of Respondents

In this section respondents' background information was sought. Focus was placed on the age of respondents, their academic level, length of service, name of the organizations from which they were drawn and their job titles. The factors were considered because they may have influenced the effect of leadership behavior on the performance of micro-finance institutions.

Table 4.1: Age category of respondents

Age category	Frequency	Percentage
Below 25 years	8	14.03
25 – 34 years	23	40.35
35 – 44 years	17	29.82
Over 44 years	9	15.79
Total	**57**	**100.00**

Source: *research data, 2013.*

Findings of the study reveal that 40.35% of the respondents were within the age range of 25 to 34 years. It was also revealed that 29.82% of the respondents were in the age category of 35 to 44 years while 14.03% of the respondents were aged below 25 years. This is a clear indication of a mature work force capable of making sound decisions in support of organizational performance.

Table 4.2: Academic level of respondents

Age category	Frequency	Percentage
Secondary level	2	3.51
Certificate & Diploma	13	22.81
University undergraduate	30	52.63
Postgraduate	12	21.05
Total	**57**	**100.00**

Source: *research data, 2013.*

Respondents were asked to indicate their academic level and findings in table 4.2 indicate that 30 respondents (52.63%) were holders of undergraduate degrees. The study also revealed that 13 respondents (22.81%) had college diplomas and certificates while 12 respondents (21.05%) were qualified with postgraduate qualifications. The study also found that 2 respondents (5.51%) had secondary level education qualifications. This is an indication that microfinance institutions prefer to employ highly qualified and technically competent individuals to work for them.

Table 4.3: Length of service of respondents

Age category	Frequency	Percentage
Less than 3 years	9	15.79
3 – 6 years	27	47.37
7 - 10 years	14	24.56
Over 10 years	7	12.28
Total	**57**	**100.00**

Source: *research data, 2013.*

Findings in table 4.3 reveal that 27 respondents (47.37%) had worked for a period of between 3 to 6 years. It was also noted that 14 respondents (24.56%) had worked for 7 to 0 years while 9 respondents (15.79%) had served in the micro finance sector a period less than 3 years. Further still, 7 respondents (12.28%) had worked for a period of over 10 years. This is an indication of a well experienced and highly skilled work force capable of making informed decisions based on their accumulated experience and good practices.

Table 4.4: Organizations from which respondents were drawn

MFI	Frequency	Percentage (%)
Faulu Kenya	6	10.53
KADET	4	7.02
Kakamega SACCO	5	8.77
KATEKO	5	8.77
K.W.F.T	8	14.04
K-REP	3	5.26
RUPIA	3	5.26
WEDO	4	7.02
Opportunity Kenya	4	7.02
SMEP	5	8.77
ECLOF	3	5.26
PRIDE	3	5.26
Masinde Muliro University SACCO	4	7.02
Total	**57**	**100.0**

Source: *Research data, 2013.*

Results in table 4.4 indicate that 14.04% of respondents from the credit officers' category were drawn from K.W.F.T. Faulu Kenya had 10.53% share of the respondents while Kakamega SACCO, KATEKO and SMEP each constituted 8.77% of the sample. The findings further reveal that K-REP, RUPIA, ECLOF and PRIDE each constituted 5.26% of the respondents. This is a clear demonstration that the researcher was sensitive to the size of the organizations when sampling respondents since the bigger MFIs had more respondents sampled as compared to the smaller MFIs. The representativeness of the sample with regard to size of the organization made is possible for the researcher to achieve the study objectives since an accurate measure of the study constructs was achieved.

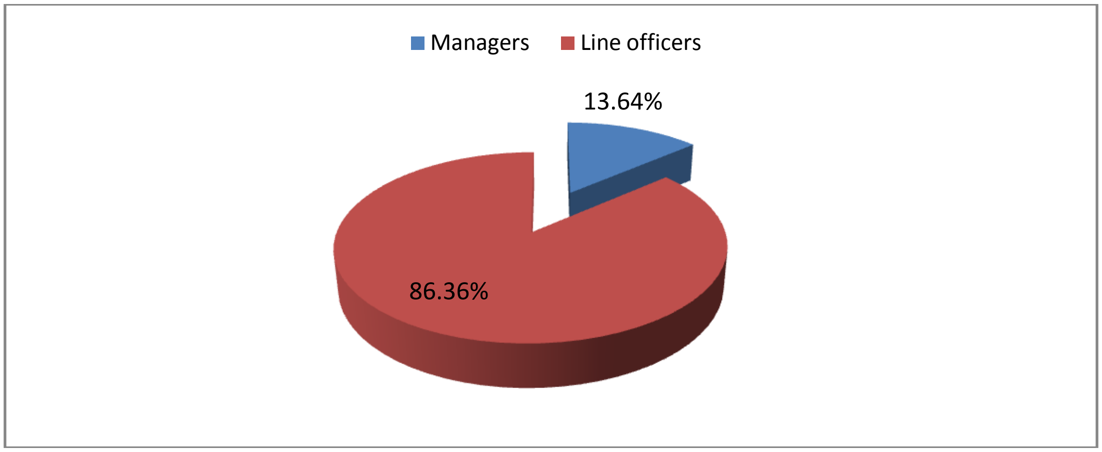

Figure 4.1: Job title of respondents

Source: *Research data, 2013.*

Findings in figure 4.1 indicate that 86.36% of the respondents were line officers while 13.64% were managers of the various MFIs. This is an indication that all categories of key staff of MFIs were considered as respondents. This enabled the researcher to establish the interrelationship between managers and line credit officers in their day to day operations in managing the performance of MFIs.

4.2 Hypotheses testing

The researcher formulated the following non-directional null hypothesis to address the above objective;

$H_0$1: Leadership behavior has no significant effect on the performance of Micro-finance institutions.

The hypothesis was tested using Pearson Product moment Correlation Coefficient with the aid of SPSS software and finding presented in table 4.6.

Table 4.6: Correlation results for the relationship between leadership behavior and performance of Micro-finance institutions.

		Leadership behavior	Performance of MFIs
Leadership behavior	Pearson correlation	1	.642**
	Sig. (2 tailed)	.	.004
	N	65	64
Performance of MFIs	Pearson correlation	.642**	1
	Sig. (2 tailed)	.004	.
	N	64	64

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

Source: *Research data, 2013.*

Findings in table 4.2 indicate a statistically significant positive relationship between leadership behavior and the performance of Micro-finance institutions (r=0.642; P< 0.05). This implies that leadership behavior that is perceived by employees of Microfinance institutions as being supportive improves their overall performance and as a consequence also improves the performance of micro-finance institutions. The reverse holds true where leadership of micro finance micro-finance institutions is perceived as not being supportive. Findings in this study were compared with findings in other studies conducted on this topic. Jones and George (2000) asserted that leaders make a difference in their subordinates' performance and winning leaders understand what motivates employees and how the employees' strengths and weakness influences their decisions, actions and relationships at the workplace and beyond. There is an agreement in the literature (Miritz, 1995; Bass, 1997) that leadership is a critical factor in the success or failure of an organization. Excellent organizations begin with excellent leadership. Leaders are effective when the influence they exert over their subordinates works towards achieving organizational performance (Jones and George, 2000). The findings of this study are in line with findings in studies conducted on this topic by various scholars. For example, Wall, Solum and Sobol, (1992) and Maritz, (1995) established in separate studies that the success of an organization is reliant on the leader's ability to optimize human resources. They further found that a good leader understands the importance of employees in achieving the goals of an organization, and that motivating these employees is important for the achievement of the goals. To have an effective organization, people within the organization need to be inspired to invest themselves in the organization's mission. They need to be stimulated so that they can be effective (Wall, Solum and Sobol, 1992; Maritz, 1995). In a study by Paulus, Seta and Baron (1996), they found that in order to have an effective organization, there must be effective and stimulating relationship between people involved in the organization. It has been widely accepted that effective organization require effective leadership and that organizational performance will suffer in direct neglect of this. Fiedler and house (1988) noted in their study that the effectiveness of any set of people is largely dependent on the quality of its leadership - effective leader behavior facilitates the attainment of the followers' desires which then translates in effective performance. The same sentiments are shared by findings in a study by Maritz (1995) and Ristow, *et al* (1999) in their studies on the relationship between leadership behavior and organizational performance.

CHAPTER FIVE SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The purpose of this chapter is to present a summary of findings of the study, deduce conclusions based on the study findings and suggests recommendations based on the study findings and conclusions. Suggestions for further research are also presented in the chapter.

Summary of the Study Findings

This study investigated the effect of leadership behavior on the performance of Micro-finance institutions in Kakamega County. Pearson Product Moment Correlation Coefficient was used to test the objective of the study and findings revealed that there was a statistically significant positive relationship between leadership behavior and the performance of Micro-finance institutions ($r=0.642$; $P< 0.05$). This implies that leadership behavior that is perceived by employees of Microfinance institutions as being supportive improves their overall performance and as a consequence also improves the performance of micro-finance institutions.

Conclusions

Regarding the findings of the study in relation to the objective, the following conclusion was made. Leadership behavior has a significant positive influence on the performance of Micro-finance institutions.

Recommendations

Based on the findings and collusions of the study, the following recommendations are made: There is need for a good relationship between managers and line credit officers involved in serving clients in MFIs. Effective MFIs require effective leadership and mutual co-operation between managers and credit officers. Managers need to behave in a manner that supports junior officers' ability to meet organizational goals hence improved performance.

Suggestions for Further Research

Leadership behavior and organizational performance is a wide topic which cannot be exhaustively presented in a study of this kind. Not all parameters related to this topic have been fully examined. Other issues have also arisen in the course of the study which needs to be followed up. It would therefore be useful if further research was undertaken in the following areas:-

I. This study focused on performance of Micro-finance institutions in Kakamega County. Microfinance institutions are basically service organizations. Further research may be undertaken on the impact of leadership behavior on the performance of manufacturing organizations and results compared with those of this study. This will present a wider general understanding of how leadership behavior impacts on work performance in organizations

II. A similar study may also be carried out using comparative analysis in commercial banks in Kakamega County. This would generate wider knowledge about the relationship between leadership behavior and the performance of the finance financial sector in general.

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