An Empirical Investigation of Leadership Styles and Their Effect on Organisational Performance of Banks in Ado Ekiti, Nigeria

Awolusi Olawumi Dele¹, Onikoyi Idris Adegboyega², Akindele Kayode Taiwo³

¹Department of Business Management, College of Business and Social Sciences, Covenant University, Ota, Ogun State, Nigeria
²Department of Business Administration, Faculty of Management Sciences, Osun State University, Okuku, Osun State, Nigeria
³Department of Business Administration, Faculty of Management Sciences, Ekiti State University, Ado Ekiti, Ekiti State, Nigeria

Email address
awosco44@yahoo.com (A. O. Dele), greenhornscomputers@yahoo.com (O. I. Adegboyega)

Citation

Abstract
Purpose- The purpose of this paper is to examine the effect of leadership style on organizational performance of banks in Ado Ekiti, Nigeria. Design/methodology/approach- The empirical study was conducted via a survey on 450 randomly selected respondents from all the participating banks in the survey. The results of the reliability analysis showed that the cronbach’s alpha of all the three constructs measuring Leadership styles and organisational performance were well above the recommended minimum of 0.70. In addition, Principal Components extraction, was the technique used to test Discriminant Validity, with a factoring method of “Principal Components”, applying an Orthogonal Varimax rotation with Kaiser’s normalization. Based on these conditions, 3 Factors were obtained (evidence of convergent validity), which was consistent with the 3 variables used in the model. The underline hypotheses were analysed and tested via regression analysis, with the aid of SPSS (Statistical Package for Social Sciences, version 20.0). Findings- Findings show a positive relationship between the two leadership styles (transactional: B=0.306, 0.042< α=0.05; transformational=0.336, 0.029< α=0.05) and organisational performance. Research limitations/implications- The paper provides a framework for future research to explore organisational performance as a consequence of its leadership styles. In addition, since the study reveals that there is a positive relationship between both leadership styles and organizational performance, hence, it is recommended that, banks operating within the scope of the study could adopt any of the two leadership styles in order to achieve the desired organizational performance. Practical implications- theoretically, the model in this study provides predictive implications on organisational performance of Nigerian banks, given the various leadership styles in practice. Hence, to improve organisational performance, banks could control their leadership styles. Originality/value- This research contributes to studies of organizational leadership styles, and the consequential impact on performance.
1. Introduction

Organisations are set up to achieve some set goals (Glantz, 2002; Johnson, 2006). In order to achieve these goals and objectives, the human factor is of utmost importance (Howell and Avolio, 1992; Kouzes and Posner, 2003; Ricardo and Wade, 2001). Top on the human factor list is the leader. A leader influences organisational members to contribute efforts willingly towards the accomplishment of pre-determined goals and objectives (Kotter, 1996; Yammarino & Dubinsky, 1994; Obiruwu., Owu., Akpa, & Nwankwere, 2011). Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization (Unamaka, 1995; Obiruwu et al., 2011). There is, however, controversy pertaining to the respective impacts of transactional and transformational leadership styles on organisational performance. Certain studies (Rejas, Ponce, Almonte & Ponce 2006) has indicated that transformational leadership had a positive impact on performance of manufacturing employee’s, while transactional leadership had negative impact on performance. Other studies (Obiruwu et al., 2011; Unamaka, 1995) had established that while transactional leadership had significant positive effect on organizational performance of Nigerian small and medium scale enterprises and the manufacturing sector, transformational leadership style had positive but insignificant effect on organizational performance. However, one major limitation of these previous studies was their concentration on the manufacturing sector (Butler and Reese, 1991; Obiruwu et al., 2011; Engel and Worden, 2003). Thus, based on the gaps identified by previous studies (Butler and Reese, 1991; Obiruwu et al., 2011; Engel and Worden, 2003), this study seeks to specifically re-investigate the actual impact of transactional and transformational leadership styles on organisational performance in the Nigerian service sector. Therefore, the main objective of this study was to examine the effect of leadership style on organizational performance of banks in Ado Ekiti, Nigeria. The specific objectives were to with a particular reference to UBA Plc in Ado Ekiti.

The specific objectives were to with a particular reference to UBA Plc in Ado Ekiti. The specific objectives are:

i.) to examine the effect of transactional leadership style on organisational performance of Nigerian banks in Ado Ekiti

ii.) to investigate the effect of transformational leadership style on organisational performance of Nigerian banks in Ado Ekiti

To answer the above objectives, the following pertinent research questions were put forward:

i.) Does transactional leadership style have any effect on organisational performance?

ii.) Does transformational leadership style have any effect on organisational performance?

2. Literature Review

2.1. Conceptual Framework

Lee and Chuang (2009), explain that the excellent leader not only inspires subordinates potential to enhance efficiency but also meets their requirements in the process of achieving organizational goals, in the present competitive globalized world (Obiruwu et al., 2011). Studies have also suggested that effective leadership behaviours can facilitate the improvement of performance when organizations face these new challenges (McGrath and MacMillan, 2000). As explained in previous studies (Saowalux and Peng, 2007; Burns, 1978; Obiruwu et al., 2011), two factors to differentiate “ordinary” from “extraordinary” leadership: transactional and transformational leadership. Consequently, as operationalized in this study, transactional leadership is based on conventional exchange relationship in which followers’ compliance (effort, productivity, and loyalty) is exchanged for expected rewards. In contrast, transformational (extraordinary) leaders raise followers’ consciousness levels about the importance and value of designated outcomes and ways of achieving them.

By utilizing the appropriate leadership style, a business leader must focus on the efficient management of internal operating systems, shaping operating decisions, and controlling management processes (Smircich and Morgan, 1982; Standing and Zug, 1986). According to Koontz and Donnell (1993), organisational performance refers to ability of an enterprise to achieve such objectives as high profit, quality product, large market share, good financial results, and survival at pre-determined time using relevant strategy for action. Consequently, it is a reflection of productivity of members of an enterprise measured in terms of revenue, profit, growth, development and expansion of the organization (Van, 1983; Yukl, 1998).

2.2. Theoretical Framework

This study is anchored on three recent theories: the contingency theory, the transactional theory, and the transformational theory.

The contingency theory speculates that leadership styles are task or relationship oriented. This theory suggests effective leadership is determined by the situation and an effective leader is able to adapt to a variety of situations. Several models have prevailed under the contingency theory of leadership. The Situational Leadership Model (Hersey and Blanchard, 1977) seems to have been the most accepted and most prevalent model under the contingency theory (Graef, 1983).

The contingency theory of leadership suggests the leader's ability to lead is dependent upon various situational factors, including the leader's preferred style, the capabilities and behaviors of followers and various other situational factors (Graeff, 1983; Bryan, 2002; Obiruwu et al., 2011). The theory assumes leadership behaviors affect outcomes, such as group performance and achieving goals, by influencing the subordinates’ behavior (Butler & Reese, 1991). As differentiated from earlier theory-contingency theory, transformational theory postulates that, the difference between transformational and transactional leadership lies in the way of motivating others. A transformational leader’s behaviour originates in the personal values and beliefs of the leader and motivates subordinates to do more than expected (Bass, 1985; Obiruwu et al., 2011). According to Obiruwu et al. (2011), a
transformational leadership style entrust a feeling of trust, admiration, loyalty and respect towards the leader in the mind of followers, and this is expected to spur them to do more than what was originally expected to do (Bass, 1985). Followers are also encouraged to think critically and seek new ways to approach their jobs, resulting in intellectual stimulation, and this ultimately improves satisfaction and performance (Bass and Avolio, 1990; Obiruwu et al., 2011; Onikoyi and Awolusi, 2014; Sanda and Awolusi, 2014; Podsakoff et al, 1996).

Transactional theory, involve a “transaction” between a manager or superior staff and a subordinate or lower staff. It is also important to note that, these type of the transaction (a reward or discipline) are usually tied to employee’s performance (Bass, 1985; Obiruwu et al., 2011). Transactional leaders attempt to meet the current needs of their subordinates through bargaining and exchanging. According to Chan (2005), both leaders and followers focus on achieving the negotiated performance level (Boehnke et al, 2003; Bass, 1985; Obiruwu et al., 2011).

2.3. Empirical Review

The most important recent studies on the impact of leadership on organizational performance are noted in literature (Boehnke et al, 2003; Obiruwu et al., 2011; Lee and Chuang, 2009). Lee and Chuang (2009) analyzed 525 Chinese firms to study the role of leadership on organizational performance. Consequently, their study identified two types of leadership behaviours- relational behaviour, and task behavior. Further in their study, organizational performance is measured as profitability, sales growth, market share, and competitive advantages. They found that leader’s task related behavior is directly related to organizational performance (Obiruwu et al., 2011).

There is no single measure of performance that can fully explicate all aspects of the term (Lee and Chuang, 2009). Organisational performance refers to an organisation’s ability to attain its goals by using resources in an efficient and effective manner (Onikoyi and Awolusi, 2014; Das, 2002). However, the definition of organizational performance, as stated by Lee and Chuang (2009), was adopted in this study. In their study, organizational performance was measured in terms of profitability, sales growth, market share, and competitive advantages.

The findings of prior studies about the role of leadership in increasing organizational performance are mixed. Some studies (e.g. Lee and Chuang, 2009; Das, 2002) suggest that the role of leadership is critically important for an organization to achieve a high level of performance. However, some other studies (e.g. Akpala, 1998; Densten, 1999) suggest that role of leadership is not so important in achieving the organizational performance.

Rowe (2001) carried out a survey of selected small scale enterprises in Nigeria as regard the effects of leadership styles on organisational performance and found out that while transactional leadership style had a significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance (Lee and Chuang, 2009; Obiruwu et al, 2011). Akpala (1998) also identifies attitude to work, leadership style and motivation as some of the factors that exert negative effect on organizational performance in Nigeria. Consequently, based on previous literature, the following hypotheses were formulated:

\[ H_{1A}: \text{Transactional leadership style has a positive impact on employee performance.} \]

\[ H_{1B}: \text{Transformational leadership style has significant effect on employee performance.} \]

3. Methodology

Survey research design was adopted in this study. This is found suitable for this kind of research work, where respondents’ opinion are sought and evaluated for possible inferences. The study population consists of the top managers, middle managers and junior staffs of banks in Ado Ekiti metropolis. Based on a total population of 1053, a randomly selected 398 respondents participated in the survey (Obiruwu et al, 2011; Akpala, 1998). A self-constructed structured questionnaire was used, and was validated by six experts in leadership studies. The questionnaire was divided into three sections. Section “A” of the questionnaire focused on the demographic information of the respondents, such as the Gender of respondents, Age, marital status, qualifications, marital status, years of experience and income. Section ‘B’ of the questionnaire contained items measuring the leadership styles, and lastly, section ‘C’ measured organisational performance. In leadership styles, they were asked to rate the degree of usefulness of 25 variables (transactional and transformational leadership styles) in association with their banks’ leadership management styles; in organisational performance, they were also asked to rate 10 variables (profitability, sales growth, market share, and competitive advantages). Each of the variables contained questions with the rating based on an interval scale from 1 to 5, where 1 is “strongly disagree” and 5 is “strongly agree”.

To analyse the data collected via the survey instrument, an appropriate statistical procedure was subsequently formulated using the methodologies recommended by Hair et al. (1998). The underline hypotheses were analysed and tested via regression analysis, with the aid of SPSS (Statistical Package for Social Sciences, version 20.0). From the formulated methodologies, specific relationship between leadership styles and organisational performance were established. Therefore, the formula for the regression is provided below.

\[ Y = b_0 + b_1 x_1 + U_i \]

\[ Y = \text{Dependent variable (organisational performance)} \]

\[ x_1 = \text{Independent variables (transactional and transformational leadership styles)} \]

\[ b_0 = \text{Intercept / Constant} \]

\[ b_1, b_2, b_3, \ldots \ldots \ldots = \text{Estimated parameters} \]

\[ x_1, x_2, x_3, \ldots \ldots \ldots = \text{Independent variables} \]

\[ U_i = \text{Error term} \]
4. Results and Discussion of Findings

During the main study and based on the sample frame of 10,632, the sample size for this study was determined using the modified Yamane (1967:886) formula (Onikoyi, Awolusi, and Boyede, 2015; Onikoyi and Awolusi, 2015). At a 95% confidence level and (variability) P of 0.5 assumed for this formula (Khong, 2005), the total sample size was settled at 450 respondents. Although, a total 450 questionnaires were administered to the respondents, 405 questionnaires were returned. Out of the returned questionnaires, 7 were discarded due to wrong fillings and were subsequently omitted for the final analysis. Therefore, a total of 398 (88% response rate) questionnaires were used for the final analysis.

4.1. Research Credibility

The results of the reliability analysis showed that the cronbach’s alpha of all the three constructs measuring Leadership styles and organisational performance were well above the recommended minimum of 0.70. This posits that the set of variables were consistent in what it intended to measure (Hair et al., 1998; Certo, 2002; Sanda and Awolusi, 2014). In addition, Principal Components extraction, was the technique used to test Discriminant Validity, with a factoring method of “Principal Components”, applying an Orthogonal Varimax rotation with Kaiser’s normalization (Khong, 2005). Based on these conditions, 3 Factors were obtained (Kaiser’s criterion of retaining factors with eigen values greater than 1), which was consistent with the 3 variables used in the model.

4.2. Analysis/Data Analysis

1) Hypothesis One: H1A: Transactional leadership style has a positive impact on organisational performance.

Table 1. Co-efficient of multiple determinants.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.586</td>
<td>.382</td>
<td>.361</td>
<td>.843</td>
</tr>
</tbody>
</table>

Source: SPSS Output

Table 1 revealed that the correlation co-efficient between organisational performance and the explanatory variable (transactional leadership style) show a positive figure of 0.586, this indicates that there is a moderate positive correlation between transactional leadership style and employee performance which implies that the explanatory variable has a positive effect on organisational performance. The co-efficient of multiple determinant (R²) with a co-efficient of 0.382 shows that the explanatory variable can explain 38.2% of the variations in organisational performance while the remaining 61.8% can be explained by the stochastic variable or other variables that were not put into consideration. The adjusted R² further confirms the result of the R² with a co-efficient of 0.361, which shows 36.1% explanation of the behaviour of the employee performance by the explanatory variables after adjustment while the remaining 63.9% is explained by the error term. The value of R²also test for the goodness of fit i.e. How fitted the data is, which is 0.382 (38.2%).

The table 2 gives a summary of the regression result of the Ordinal Least Square using SPSS 20.0 software. From the table it can be deduced that the value of constant parameter is given as 2.785 and transactional leadership style is (B=0.306, 0.042< α=0.05). Therefore, we accept alternate hypothesis. Hence Transactional leadership style has a positive impact on organisational performance. The regression result above shows that organisational performance is constant at 2.785; this implies that if the explanatory variable is held constant, organisational performance will increase by 27.85%. Furthermore, the co-efficient of transactional leadership style is given as 0.306; this shows that transactional leadership style is positively related to organisational performance and therefore implies that an increase in transactional leadership style will result into 30.6% increases on organisational performances of banks in Ado Ekiti.

2) Hypothesis Two: H1B: Transformational leadership style has significant effect on organisational performance.

Table 2. Regression analysis showing the effect of Transactional leadership style on organisational performance.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Constant)</td>
<td>2.785</td>
<td>.588</td>
<td>4.733</td>
</tr>
<tr>
<td></td>
<td>Transactional leadership style</td>
<td>.306</td>
<td>.153</td>
<td>.286</td>
</tr>
</tbody>
</table>

Source: SPSS Output

Table 3 revealed that the correlation co-efficient between organisational performance and the explanatory variable (transformational leadership style) show a positive figure of 0.618, this indicates that there is a positive correlation between transformational leadership style and organisational performance, which implies that the explanatory variable has a positive effect on employee performance. The co-efficient of multiple determinant (R²) of 0.464 shows that the explanatory variable can explain 46.4% of the behaviour of organisational performance while the remaining 53.6% can be explained by the stochastic variable or other variables that were not put into consideration. Furthermore, the adjusted
R² further confirms the result of the R² with a co-efficient of 0.441, which shows 44.1% explanation of the variations in organisational performance, by the explanatory variables after adjustment, while the remaining 55.9% is explained by the error term. The value of R² also test for the goodness of fit i.e. how fitted the data is, which is 0.464 (46.4%)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>-----</td>
<td>------</td>
</tr>
<tr>
<td>(Constant)</td>
<td>3.052</td>
<td>.609</td>
<td>5.013</td>
<td>.000</td>
</tr>
<tr>
<td>Transformational leadership style</td>
<td>.336</td>
<td>.149</td>
<td>.318</td>
<td>2.250</td>
</tr>
</tbody>
</table>

Source: SPSS Output

The table 4 gives a summary of the regression result of the Ordinal Least Square using SPSS 20.0 software. From the table it can be deduced that the value of constant parameter is given as 3.052 and transformational leadership style is 0.336. The regression result above shows that organisational performance is constant at 3.052; this implies that if the explanatory variable held constant, organisational performance will increase by 30.52%. The co-efficient of transformational leadership style is given as 0.336; this shows that transformational leadership style is positively related to employee performance and therefore implies that an increase in transformational leadership style will result into 33.6% increases on organisational performance (B=0.336, 0.029< α=0.05). Therefore, we accept alternate hypothesis. Hence Transformational leadership style has significant effect on employee performance.

4.3. Discussion of Findings

The positive relationship between the two leadership styles (transactional: B=0.306, 0.042< α=0.05; transformational=0.336, 0.029< α=0.05) and organisational performance in this study is similar to previous empirical studies (Katz & Kahn, 1978; Obiruwu et al, 2011). These studies suggest the positive role of leadership for an organization to achieve a high level of performance. However, some other studies (e.g. Muterera, 2012; Murphy and Drodge, 2004) suggest that role of leadership is not so important in achieving the organizational performance.

This study is also similar to Pradeep and Prabhu (2011). By examining the relationship between effective leadership style and employee performance in India, their study revealed that leadership was positively linked with employee performance for both transformational behaviour and transactional contingent reward leadership behaviour. Furthermore, a similar research carried out by Humphreys and Einstein (2003), to determine which leadership style can increase the performance of employees of some selected private schools in Pakistan, also demonstrated that transactional and transformational leadership styles are both positively associated with employee performance. When compared with this study, Obiruwu et al. (2011) findings were mixed. In a survey of selected small scale enterprises in Nigeria as regard the effects of leadership styles on organisational performance, Obiruwu et al. (2011) found out that while transactional leadership style had a significant positive effect on performance, transformational leadership style had positive but insignificant effect on performance.Akpala (1998) also observed that leadership style as one of the factors that exert negative effect on organizational performance in Nigeria.

5. Summary, Conclusion and Implication of Findings

5.1. Summary and Conclusion

This study examines the effect of leadership style on organizational performance of banks in Ado Ekiti, Nigeria. The empirical study was conducted via a survey on 450 randomly selected respondents from all the participating banks in the survey. The underline hypotheses were analysed and tested via regression analysis. Findings show a positive relationship between the two leadership styles and organisational performance. It can therefore be concluded that, there is a positive relationship between both transactional and transformational leadership style and organizational performance. This means that both transactional and transformational leaders will increase the performance of banks in Ado Ekiti.

Since the study reveals that there is a positive relationship between both leadership styles and organizational performance, hence, it is recommended that, banks operating within the scope of the study could adopt any of the two leadership styles in order to achieve the desired organizational performance.

5.2. Managerial and Theoretical Implications

This research provides incisive insights regarding the respective effect of leadership styles on organisational performance in the Nigerian banking industry. Consequently, this study is relevant to organisational leaders in the banking industry, as regards areas of applying the mix of both transformational and transactional leadership styles with due consideration to the situation and nature of task assigned to employees. Also, the study will help organisation’s top management to understand the critical factors that affect the performance of organisational members and the strategic option to be adopted to address them. The study will also be of significant to scholars or researchers in studying holistically the sub-variables of the transformational and transactional
leadership styles which may enhance or hinder organisational performance and subsequently, adopting creative applicability of appropriate leadership style. Theoretically, and in response to gaps identified in previous studies, this study seems to be one of the few studies to use a combination of perceptual measures of organisational performance, in the context of profitability, sales growth, market share, and competitive advantages (Katz & Kahn, 1978; Obiruwu et al, 2011; Clemmer and McNeil, 1990). In general, this research provides important lessons in terms of the consequences of a particular leadership style being adopted in service-oriented organisation. The findings of this research offer a number of strong lessons for organisations anxious to improve their organizational performance.

5.3. Limitations and Future Research

However, this study suffers from the common limitation of survey research. Since only one perspective in each organization was collected and for the fact that few respondents were chosen from each participant banks, it is not unreasonable to claim that a method bias may limit the research findings. Additional guidelines might be used in future studies to minimize this potential limitation, which may include the use different methods to measure both the leadership styles and organisational performance. Objective measure of organisational performance may also be explored in future studies.

References


