MEDIATING EFFECT OF INNOVATION ON THE RELATIONSHIP BETWEEN LEADERSHIP STYLE AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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A DISSERTATION PRESENTED TO THE GRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN ORGANIZATIONAL LEADERSHIP, SCHOOL OF LEADERSHIP, BUSINESS AND TECHNOLOGY PAN AFRICA CHRISTIAN UNIVERSITY

JUNE 2024

Declaration

This dissertation is my original work and has not been presented for a degree or any other award in any other University.

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Dedication

This dissertation is dedicated to my loving parents; Mr & Mrs. Muriuki (posthumously) for their invaluable words of wisdom and encouragement to pursue my dreams including enrolling for further studies. Having served as professional teachers, they instilled in me the value of education and ensured that I always believed in myself and inspired me to strive for excellence in all areas of my life. This milestone Degree of Doctor of Philosophy in Organizational Leadership is a product of their earnest prayers and faith in me to achieve greater heights in life.

Acknowledgement

First and foremost, I would like to thank God Almighty, in who I live, move, and have my being for endowing me with the strength and resources to undertake my studies. The pursuit of my dissertation was made possible by several people to whom I am eternally grateful for their support. I am particularly indebted to my supervisors Dr. James M. Kilika and Dr. Robert Gitau for the positive criticism, patience, and great guidance throughout my journey of dissertation writing. My sincere gratitude also goes to my leaders at work for the support and for the leave days granted to me to pursue my PhD course. I am also grateful to the leadership of Pan Africa Christian University headed by Prof. Kihika Kiambi, all my lecturers and the leadership department Dr. Truphena Oduol, Dr. Solomon Munyao and Dean Graduate School Dr. Jane Kinuthia who faithfully imparted in me their knowledge and skills throughout the entire course. I am also very thankful to my loving husband, Peter Githaka and son, Keith Githaka who are my greatest cheerleaders and who ensured that I had a conducive working environment. Moreover, I am grateful to my siblings and in-laws who are a great example in the pursuit of academic excellence and always called to check on my progress.

Abstract

Leadership is invaluable in creating sustainable outcomes while globally, banks have experienced turbulence necessitating innovation. The motivation to carry out this study stems from the fact that amid uncertainty, Kenyan banks' performance has differed with some being more agile at embracing new ways of working faster than others and a search for understanding the leadership styles applied. Empirical literature reveals fewer studies undertaken on the subject in African and specifically, in the Kenyan context. Techniques used lacked the rigor to show the degree of input of leadership style and the clarity of combining different leadership styles and contribution to performance. The study sought to establish the effect of leadership style on performance of Kenyan commercial banks registered under the Central bank of Kenya while assessing the mediating effect of innovation on the relationship between leadership style and performance. Postulates of behavioral theory of leadership, transformational, authentic leadership and diffusion of innovation theories anchored the study, founded on epistemological position of pragmatism. A mixed method research orientation guided in the choice of a convergent parallel mixed research design which enabled collection of both quantitative and qualitative data. The sampling frame for the proposed study comprised all licensed Kenyan commercial banks as listed in the Central Bank's directory of licensed commercial banks and mortgage institutions and applied a multistage sampling procedure. The study adopted registered commercial banks as the unit of analysis, while leadership at various levels of hierarchy in the bank was the unit of observation. A sample size of three hundred and sixty senior and middle level managers was obtained using proportionate stratified sampling. Pre-testing of the questionnaires was carried out on select leaders in the microfinance banks regulated by the Central Bank of Kenya to confirm that all the items were stated clearly and could be similarly interpreted by all respondents. Reliability was tested via internal consistency using Cronbach alpha yielding an overall score of 0.978. Questionnaires collected data from 352 commercial bank leaders in Nairobi, Kenya, while interviews with 15 selected members of senior management provided in-depth understanding to the constructs. Quantitative data was analyzed using SPSS (Version 23.0), Atlas.ti 7 software was used for qualitative analysis and data presented using tables and charts. Findings showed transformational (β#0.247, P=0.000) and authentic leadership (β=0.267, P= 0.000) have a significantly positive influence while transactional leadership (β =-0.259, P =0.000) has a significantly negative influence on performance of commercial banks. Innovation partially mediated the relationship between leadership style and performance of commercial banks in Kenya as tested via the Baron and Kenny (1986) model. The beneficiaries of the study are policy makers, regulators, and organizational leaders particularly in the financial sector and it recommends commercial banks focus on leadership development programs emphasizing transformational and authentic leadership practices while encouraging soft HRM, situational and collaborative approaches to support innovation resulting in improved performance. Secondly, leaders in commercial banks should invest returns and devise products to reach the unbanked while prioritizing information security to curb fraud. Thirdly, studies could be conducted on financial players mediated by other innovation types like agency banking. Lastly, longitudinal studies could be undertaken over periods beyond five years to determine long-term effect of leadership style and political interference or mergers and acquisition of commercial banks on their performance.

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Abbreviations and Acronyms

ALD	Authentic Leadership Development
ALQ	Authentic Leadership Questionnaire
ATM	Automated Teller Machines
CBK	Central Bank of Kenya
DOI	Diffusions of Innovation
LS	Leadership Style
MLQ	Multifactor Leadership Questionnaire
NACOSTI	National Commission for Science, Technology, and Innovation
OP	Organization Performance
PAR	Portfolio at Risk
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences
TL	Transformational Leadership
HRM	Human Resource Management

Operational Definition of Terms

Authentic leadership:	This is regarded as one of the latest areas of leadership research which is still in the formative stages of development. It is centered on whether the leadership is real and is concerned with the authenticity of the leader (Northouse, 2021).
Business performance:	The output or outcome that is produced by an organization as a result of planned or intended activity (Yıldız & Karaka, 2012) and good performance is a consequence of carrying out work economically, efficiently and effectively (Madanchian et al., 2016)
Innovation:	It is a creation with the main aim of extracting value or utility of a specific product, service, idea, environment, or process. It should result in profit or exploitation for the innovator (Oster, 2011).
Leadership style:	The methods employed by leaders to carry out their management functions (Mullins, 2010) and is a sum total of the pattern of behavior of an individual who attempts to influence others which can be in a supportive or directive way (Kolzow, 2014; Northouse, 2021).
Portfolio at risk (PAR):	It is a computation of the loan portfolio quality, and it measures the portfolio of the loans infiltrated by overdue installments as a percentage of the total loan portfolio (Von Stauffenberg et al., 2003).

Transactional leadership: A leadership style based on exchanges to motivate followers using rewards and benefits (Northouse, 2021; Yukl, 2009).

Transformational Leadership: It is a branch of the latest leadership models that focuses on the charismatic and affective facets of leadership (Northouse, 2021). Transformational leaders influence the overall conduct and views of the followers in any organization (Choudhary et. al, 2013) resulting in new ideas and ways of working.

M-Pesa: An innovation launched by Kenya's telecommunication company, Safaricom in conjunction with Vodafone PLC. It provides a branchless banking platform by use of a mobile phone. M stands for mobile and Pesa is a Swahili word denoting money. M-Pesa users can deposit, withdraw, transfer money or pay for goods and services as well as airtime using the mobile phone without the need to own a bank account (Mbiti & Weil, 2011).

Mshwari: Safaricom Kenya's novel innovation where mobile money accounts are accessed through the mobile phone. The users earn interest on savings and access loans without opening a bank account thereby promoting financial inclusion (Aron & Muellbauer, 2019)

Chapter One: Introduction and Background of the Study

Introduction

Leaders are operating in a dynamic, complex and vibrant business environment which may have negative or positive outcomes in the organization. This gives rise to major opportunities for developing business beyond physical boundaries. This introductory chapter introduces leadership style, innovation and performance as part of the study's background delves and looks at the role of innovation in aiding organizations to favorable outcomes in the form of profits and favorable return to shareholders. The chapter thereafter states the research problem, objectives of the study and the research question and hypotheses. Consequently, the justification and scope of the study and limitations are also discussed. A recap of the sections is presented together with an outline of the rest of the dissertation.

Background of the Study

Globally, dynamism has necessitated that business leaders apply appropriate leadership styles and become agile to respond to the markets effectively or risk demise. The recent past the world has witnessed a dearth in leaders lagging in response to changing environment and the demise of organizations such as the Lehman brothers and Netbank (Saythongkeo & Tran, 2022). Most recently, the banking sector in the United States has also been a casualty with the recent collapse of Silicon Valley Bank and Silver Gate bank in March 2023 mainly due to the emergence of cryptocurrencies, aggressive interest rate hikes by the Federal Banks in a bid to curb inflation and building of innovative products targeting deposit mobilization which led to concentration of deposits which is risky at the onset of a bank- run situations when depositors decide to pull out funds (Manda, 2023). The financial crisis did not spare European banks with a rise in inflation, unemployment and low economic growth rates calling for a review of corporate governance structures (Ayadi et al., 2019). This has been hot on the heels of the Coronavirus Pandemic which the world has barely recovered from its effect ranging from loss of lives and livelihoods, business disruption and suppression of global economies and banking crisis. With the closure of bank branches, fintech companies have emerged as competitors of banks due to product innovations that allow clients access to banking products remotely (Yan & Jia, 2022).

Regionally, the current business operating environment has also been affected with political challenges in the Arabic and Middle East regions taking a toll on businesses and necessitating for leadership that is able to support innovation (Jaaffar et al., 2023). Organizations are being forced to innovate continuously to improve their competitiveness (Xie et al., 2018). Several factors have contributed to a higher probability of systemic banking crises caused by political instability and conflicts at varying levels in the Asian and African contexts (Compaore et al., 2020). Closer home in Ethiopia, research on the impact of COVID 19 Pandemic on the banking sector showed that the asset quality was impeded due to default asset quality calling for the need to innovate in order to support business growth via the use of digital channels and e-banking services (Tesfaye, 2020).

Locally, Kenya has not been spared from the volatile and competitive environment seeking for innovation. The government introduced containment measures which impeded businesses in many sectors of the economy (Nyamboga, 2021). This led to extensive restructuring of loans and reduction of cash reserve ratios in the banking sector to support struggling businesses while preventing growth of Non-Performing Assets which were fiscal policy measures instituted by the Central Bank of Kenya -CBK (Mwangagi, 2021). The Kenyan Banking sector previously was casualty to various systemic shocks especially after the Central Bank of Kenya placed three banks; Dubai Bank, Imperial Bank and Chase Bank under receivership in 2015/2016 within quick succession due to breach of prudential guidelines and corporate governance issues (Osebe & Chepkemoi, 2016). The collapse of the banks coupled with acquisition and mergers of struggling banks led to bank runs on deposits causing major withdrawal of funds from struggling banks especially in Tier 3 and depositing them in Tier 1 banks viewed as more stable. Macroeconomic environment thereby plays a pivotal role in survival of banks as many bank failures were sponsored by systemic disruptions (Koskei, 2020). Not all banks have been affected negatively, with some reporting better performance despite the prevailing market conditions. This invited continued investigation into the factors that differentiate banks.

This study attempted to carry out an assessment of the extent to which leadership style could support innovation of market applicable products and services, which is a key differentiator and could lead to sustainable performance despite the operating environment. The subsequent sections developed arguments in a structured and progressive fashion as the researcher sought to investigate what propagated varied levels of performance among commercial banks in Kenya in times of rapid change.

Performance

Performance of an organization is defined as productively converting resources into revenues to achieve certain desired results. It is a concept that describes how employees meet their goals and encompasses the economy, efficiency, and effectiveness of the organization (Madanchian et al, 2016). It is displayed in the form of palpable behavior displayed by employees of an organization in line with the different roles played in the organization (Iskamto et al, 2021). Business performance is output or outcome that is produced by an organization because of planned or intended activity (Yıldız & Karaka, 2012) and good performance is a consequence of carrying out work economically, efficiently, and effectively where the creativity and individual contribution of each employees matters (Nandasinghe, 2020). A business must maintain consistent good performance to remain sustainable (Jang, 2022). It links the key objectives of the organization, client fulfillment and financial commitments and is exemplified as the outcomes of work (Muchunu, 2012). Organizational Performance is a subject that has received considerable attention from researchers with interest in studying management (Richard et al., 2008). The concept of performance depicts how employees reach their goals and describes the level of tasks achieved in relation to targets set for a given period of business (Yildiz et.al, 2014).

Generally, organizational performance is attributable to leadership performance as business management recognizes that an organization's success depends on the degree of their leadership efficiency (Ojokuku et. al, 2012). Laperleen (2014) opines that leadership style affects performance as good performance cannot manifest in the absence of adaptive leadership that provides motivation to the staff regardless of the prevailing micro and macro environment. Qualitative and Quantitative outcomes are involved in measuring the concept of performance either at individual or organizational level (Gokalp et al., 2022). The performance of any organization is a cumulative result of each employee's individual performance (Saif & Siti, 2022).

The present study focuses on organizational performance where the various models that are used to measure performance in financial institutions can either be financial or non-financial; for instance, management and governance which may be difficult to quantify in figures. These indicators can measure both the performance and risk levels of financial institutions (Iskamto et al., 2021; Von Stauffenberg et al., 2003). Measuring business performance is the evaluation of efforts and resources dedicated to achievement of business goals (Yıldız & Karaka, 2012). The study narrowed down to financial indicators categorized into portfolio quality, efficiency, financial management measured by debt-to-equity ratio and profitability.

Portfolio quality is used to manage credit risk and it measures the loan portfolio of the loans infiltrated by unpaid installments as a percentage of the total loan portfolio (Von Stauffenberg et al., 2003). Efficiency distinguishes the leader's ability to optimize all given resources for the benefit of the organization (Shair et al., 2021). Financial management is the third indicator as any financial institutions must focus on planning enough liquidity to meet its obligations to its stakeholders. Profitability is the final key indicator which is an outcome of healthy portfolio quality, efficiency and productivity and prudent financial management (Jansson, et. al., 2003).

Leadership Styles

In organizational behavior studies, leadership has got to be the most debated, published and researched topic with exponential growth on the work of many scholars and academicians (Ererdi & Durgun, 2020; Northouse, 2021; Rost, 1991). A literature search on the concept of leadership reveals that different traits, behaviors, abilities, sources of power or situational aspects are factors that determine the leader's level of influence on the followers (Yukl, 2020). Since it is a complex concept, this has led to attempts to define it in terms of the leader's traits or the context within which the leader operates (Northouse, 2021) as they encourage followers to work enthusiastically towards the achievement of common goals (Nandasinghe, 2020).

Researchers often define leadership based on their individual perspectives which may be based on traits, behaviors, relational patterns and the administrative occupation of a position (Yukl, 2020). What is more, there are assigned and emergent leaders, the assigned leader gains the title due to the position they hold while the emergent leader is perceived as influential by others without a formal position (Northouse, 2021). Leadership is not necessarily tied to an organization and can occur anywhere as long as someone emerges to influence followers towards common goals (Iskamto et al., 2021). A leader is more than someone who possesses organizational authority or is easily recognizable; they must have developed a group of followers as people tend to be attracted to people who possess similar values (Kolzow, 2014).

Leadership is an art of making things happen by exerting intrinsic and extrinsic influence on followers (Igbaekemen & Odivwri, 2015). Moreover, it is the ability to inspire and impress on team members by giving them a sense of purpose (Yildiz, 2014) as the success of any organization is linked to the performance of employees which is closely influenced by leadership (Iskamto et al., 2021). Leadership is defined as a continuous practice where one person exerts influence on their followers geared towards the achievement of a common goal. There are certain elements that can; however, be pointed out as being central to leadership despite the varied definitions; it is a process; it uses persuasion, happens in groups and entails achievement of common objectives (Iskamto et al., 2021; Nandasinghe, 2020; Northouse, 2021).

Additionally, the leader must clearly articulate his vision and then sell it while motivating the followers to adopt and implement it to influence his followers (Kolzow, 2014; Nandasinghe, 2020; Piwowar-Sulej & Iqbal, 2022**;** Sythengekeo et.al., 2022). Leadership functions: however, differ in normal operations where support and structure are needed and during times of transformation (Yildiz et al., 2014). Businesses today are finding themselves in times of transformation which call for a leader who can drive new ways of doing business efficiently and effectively (Oke et al., 2009). Consequently, it is imperative to gain an appreciation of the different leadership styles employed by different leaders as during times of crisis the ability of the organization to survive depends on the leaders at the helm (Jaaffar et al., 2023).

A style of leadership depicts a unique way of behaving based on the leader's unique traits and involves the lessons learnt from experience or through role models. However, it may be affected by the goal at hand (Iskamto et al., 2021; Kolzow, 2014). It is a recurring model of behavior or trait expressed in the leaders' actions (Xie, et al., 2018). Moreover, it is the way in which leadership tasks are undertaken (Igbaekemen & Odivwri, 2015). It is also viewed as the way in which a leader combines behaviors, skills, traits and characteristics when relating with followers (Ojukuku et al., 2012). Leadership style encapsulates the functional relationship between leaders and followers which drives sustainable results such as organizational effectiveness and creativity of the employees (Sythengekeo et al., 2022)

Leadership styles can be viewed on a continuum where the opposite sides of the spectrum range from focus on implementing specific tasks to focus on human relationships. Pragmatically, those who settle on styles that focus on tasks are viewed as authoritarian while those who are relational oriented are viewed as democratic (Kolzow, 2014). Nevertheless, there has been no consistent link found between task behaviors, relationships, and outcomes in the style approach (McWhorter, 2011). However, depending on different contextual and situational circumstances, different leadership styles are used, and no single style can be used in all situations (McWhorter, 2011; Nazim et al., 2017).

Leadership as a concept in social sciences has been widely researched and written about. There has also been growing debate on the subject with people deliberating among themselves and others as to what constitutes good leaders (Northouse, 2021). The extant literature is rich in its content regarding the leadership nature and processes. Out of the rich literature, it is possible to identify various aspects of leadership that lead to the current understanding of what constitutes leadership style. Leadership involves influencing followers to achieve shared objectives (Northouse, 2021). It entails convincing followers by communicating through persuasion in pursuit of achievement of expected objectives (Nazim et al, 2017), by providing followers with a sense of purpose (Yildiz, 2014). This means that leadership is a process which emphasizes social relationships and interactions and is developed over time (Kulzow, 2014). Previous studies have established that employing a suitable leadership style can lead to enhanced achievements and organizational and employee growth (Madanchian et al, 2016).

The way functions of leadership are carried out denotes the leadership style (Mullins, 2010) and it consists of an individual's supportive or directive behavior patterns with an attempt to influence others (Kolzow, 2014; Northouse, 2021). A good understanding of leadership styles cannot be overstated as it is commonly assumed that followers willingly work in an effective manner for leaders who employ certain leadership styles in comparison to alternative styles (Mullins, 2010). Leaders can apply a wide variety of leadership styles; however, a broad framework consists of authoritative styles which involve the use of leader control in decision making;

democratic style, where followers are given a voice and make collaborative decisions with the leader and Laizzes-faire style or hands free, where the followers make the decisions (Northouse, 2021).

Leadership styles vary between different personalities; therefore, exemplary leaders do not necessarily rely on only one leadership style in the execution of their leadership mandate (Bishop, 2012; Goleman, 2005). Many researchers have addressed different leadership styles in their studies. However, to address this study’s objectives, the focus was on three styles, namely, transactional, transformational and authentic leadership due to key conceptual and contextual factors that are applicable to the study as enumerated below.

Transactional leadership is based on exchanges to motivate followers using rewards and benefits (Northouse, 2021; Yukl, 2009). It emphasizes the interrelationship between group members and leaders in fulfilling allocated tasks. The style revolves around working relationships and is also referred to as task oriented or managerial leadership (Yildiz, 2014). It is very commonly applied in today’s performance-oriented organizations where targets are set mostly at the beginning of the year and rewards such as bonuses and salary increment tied to performance in relation to set targets. Once the set targets are achieved and rewards given, the reward serves as the motivator to meet the next set of targets (Mulonzi et. al, 2017). The transactional leader’s main role is to reward good performance and punish poor performance. The leader motivates employee’s self interest in their work (Nazim et. al, 2017). Consequently, it is a default leadership style adopted by many leaders in many sectors including banking where performance management is a critical aspect of their mandate.

Transactional leadership: however, offers extrinsic motivation as it does not offer much in terms of motivating and inspiring the employees to go beyond their day-to-day tasks. The employees may thus, get complacent and perform at mediocre levels just to meet the minimum expectations of their roles to avoid penalties (Mulonzi et. al, 2017). It is usually contrasted with transformational leadership which involves the leader engaging with the followers in a way that creates a connection that increases motivational and morality levels for both him and the followers (Northouse, 2021).

Transformational leadership has recently elicited growing interest in leadership studies. It is part of the novel leadership model that emphasizes the charismatic and affective facets of leadership (Northouse, 2021). According to Bass (1995), the concept was first developed by Downton and later expanded by Burns who posited that the role of leaders is to tap on follower motivations with an aim of increasing achievement of the organization's common goals (Nazim et. al, 2017; Northouse, 2021). Transformational leaders are classified as being optimistic, trustworthy, positive leaders who encourage teamwork and promote innovation (Madanchian et. al, 2016). Transformational leadership promotes intellectual stimulation through inspiration. It works through four dimensions normally denoted as the Four I's of transformational leadership, namely, Intellectual Stimulation which spurs follower creativity, Inspiration Motivation involving the leader communicating with a passionate appeal, Idealized influence or charisma and Individualized consideration where the leader listens and responds to the follower's personified needs (Choudhary et. al, 2013; Northouse, 2021; Yildiz, 2014). It involves a loyalty process that leads to positive outcomes by changing the attitudes of the followers (Yildiz, 2014).

The general behavior and follower philosophy in any organization is influenced by transformational leaders (Choudhary et. al, 2013) resulting in fresh ideas and working habits. Additionally, Bass and Avolio (1994) posit that transformational leadership leads to superior performance. The charismatic component converts idealization into realistic action and involves linking organizational tactics and psychological characteristics which bring about organizational change (Nazim et. al, 2017). Intellectual consideration is employed by the transformational leader to tackle the challenges faced and promotes learning and innovation which in turn improve performance (Choudhary et. al, 2013). The leaders embrace fairness which in turn makes the followers feel special and confident in exchange for their loyalty (Nazim et. al, 2017) which has an inevitable effect on organizational performance. The contexts in which organizations including the banking sector in Kenya are operating today are characterized by change; therefore, requiring the input of transformational leaders.

Authentic leadership is perceived as a foundation element where positive varieties of leadership are embedded and is regarded as an antidote to leadership failures and inadequacies (Zhou et. al, 2014). In addition, authentic leadership has evolved over time as the 21st century leader cannot use the command-and-control approach popular in previous centuries (Celik et. al, 2016). It is regarded as among the newer parts of leadership research and is centered on the legitimacy of the leadership. It is still in the initial stages of formation and is concerned with the genuineness of the leaders and their leadership (Northouse, 2021).

Today’s organizational environment has further revealed an increasing public concern into the ethical conduct of today’s leader; thus, leading to the conceptualization of authentic leadership as an affirmative leadership style (Datta, 2015). In the dynamic environment organizations are operating in today, an economic change in one part of the world can send shock waves in the world economic systems like the financial crises that shrouded the American banking systems in 2008 (Paraschiv, 2013). The Kenyan Banking Sector has not been an exception either especially after the Central Bank of Kenya placed three banks under receivership in 2015/2016 within quick succession, indicating leadership challenges (Osebe & Chepkemoi, 2016).

Moreover, in these tumultuous and demanding times, there is a call for leadership that is genuine throughout the world (Avolio & Gardner, 2005). The scandals facing both public and private firms throughout the world have created fear and uncertainty and there is a lot of apprehension and insecurity. There is an earnest search for genuine and trustworthy leadership in addition to good, honest leaders which makes it an opportune and sensible moment in time to study authentic leadership (Northouse, 2021). The mentioned problems have created a renewed spotlight in restoration of optimism and expectation in the rapid resilience from disastrous events (Avolio &Gardner, 2005). This calls for leaders who lead from their beliefs and values, morals and principles (Avolio & Luthans, 2006) which are essential to the banking system that plays a role as financial intermediaries based on public trust. A great body of empirical research has linked authentic leadership to creativity, innovation and resultant positive outcomes for the organization ranging from increased performance, leader effectiveness and team ability to deal with changing times (Datta, 2015; Müceldili, 2013; Sanda, & Arthur, 2017; Schuckert, 2018; Walumbwa, 2008; Zhou, 2014).

Innovation

The development of a specific product, service, process, or idea for the purpose of making it valuable or utilizable is defined as innovation (Daft, 2010; Oster, 2011).

The goal of the innovation is often for exploitation or revenue for the innovator (Oster, 2011). Daft (2010) posits that innovation can be applied on a product, service, technology, and processes. Innovation may also refer to changes that take place in a product or service in terms of the organization market to which it is applied, differentiation away from its original purpose, deviations in development and delivery of the product or service or changes in the business model (Grošelj et al., 2020) and is therefore a source of competitive advantage (Muigai & Gitau, 2018).

In the banking sector, innovation falls on technological based innovations to drive products, services, and processes. Commercial banks offer similar products and services but there is need to be innovative in their provision of service to customers to create competitive advantage by forming a niche, sustain higher revenues, attract new customers as well as retain existing ones, while saving on operational and staff costs (Oweis & Alghaswyneh, 2019). The level of innovation in an organization can be a pointer to performance as it measures the organization's ability to generate change (Mugambi &Kinyua, 2020). A product/ service innovation is a primary way of the organizations adjusting to the market, technology or competitive fluctuations and may include small adaptations to existing products. In technology innovation, a change in the organization's production process makes construction of a product or service more efficient or produces greater volumes (Daft, 2010). Innovations, however, may result in the rise of cyber-crime where criminals gain unauthorized access to the systems thereby giving rise to operational costs and resulting in reduced levels of performance (Muigai & Gitau, 2018).

Leaders play a central role in driving innovation. Innovation is becoming an organizational priority and a shared responsibility. It is a board level priority where leading organizations realize that the innovation agenda should be driven by the chief executive officer for buy in from the employees (Ruddenklau, 2018). Leaders play a critical role in steering an organization in changing business contexts. Change leadership is a directed process where followers' collective efforts are encouraged and facilitated to become accustomed to and thrive in the face of uncertainty and challenging environments (Yukl, 2020). More and more, leadership is being viewed as a key ingredient for success and differentiator in global trade and commerce (Paraschiv, 2013). Ultimately, it is the role of the top leadership in any organization to provide direction during changing times; however, the involvement of other organization members is required. The leader must therefore be armed with the right people skills in addition to their functional skills to positively drive change (Lloyd & Feigen, 1997).

Organizational creativity and innovation can effectively be encouraged by leaders who promote an enabling environment where creativity can flourish by creating working conditions that are comprehensive and sociable (Agbor, 2008). Furthermore, organizations need to take advantage of their employees' innovative ability to increase their levels of innovation (de Jong & Hartog, 2007). All told, top leaders must take pleasure in their people as sources of innovation potential but must first be able to appreciate creativity themselves and be at the front line in promoting progressive ideas (Agbor, 2008). Safaricom, an eighteen-year-old telecommunications company in Kenya is an example of an organization where the top leadership encourages innovation and has set up an innovation hub dubbed 'Zindua'. It is now globally recognized as a creative company that has broadened its services from voice, data, financial solutions through various novel creations like M-pesa and M-shwari as well as enterprise solutions. This has had an enormous impact on the performance of the company with an estimated market value in excess of one trillion Kenya shillings according to the Fortune Magazine's 'change the world list' (Kimuyu, 2018).

In recent years, technological innovation has been embraced in the business world, more so in the banking sector, as a tool to increase productivity and performance due to the competitive environment although many developing nations still have a low level of penetration of e-banking services (Oweis & Alghaswyneh, 2019). In the world over, various types or measures of innovation such as banking using mobile phones, internet, automated teller machines (ATM), usage of debit and credit cards as well as virtual reality banking have been adapted by the banking industry (Chaarani & Abiad, 2018; Ngumi, 2013). Virtual reality banking is a new frontier which is interactive and used to meet customer requirements by use of images to clarify customer preferences (Kołodziej, 2017). For the purposes of this study, we shall not be considering virtual reality as it is not prevalent in Kenya.

The use of mobile banking is increasingly becoming widespread in Kenya today. It involves the provision of banking services at any location, usually distant from the branch using mobile phones. It incorporates the use of mobile payments, money transfers, mobile alerts, and mobile statements. Internet banking is also gaining popularity, especially among corporate clients in the banking sector due to its flexibility and convenience. It involves delivery of banking services via the use of automated electronic channels to transact away from the brick and motor set up of branch banking (Davila, 2010). It is a means of creating customer loyalty and convenience. Automated Teller Machines (ATMs) provide access to customer accounts at all hours by use of debit or credit cards without direct access to a bank teller. The electronic terminal facilitates access to transactions like withdrawal or deposit of cash, inquiries, and money transfers (Chaarani & Abiad, 2018). A debit card is a tool of accessing funds from the client's account by use of ATM or point of sale terminals while a credit card gives the customer access to borrowed funds up to the approved limit.

The Kenyan Banking Sector

As of 31st December 2022, the banking sector in Kenya consisted of the Central Bank of Kenya who is the regulator charged with the responsibility of formulating and monitoring policy (Ngure, 2013). It also comprises 38 commercial banks, 1 mortgage finance company and 1 Mortgage refinancing company, 10 representative offices of foreign banks, 14 Microfinance Banks (MFBs), 3 Credit Reference Bureaus (CRBs), 19 Money Remittance Providers (MRPs), 8 non-operating bank holding companies and 72 foreign exchange (forex) bureaus. According to the Central Bank of Kenya (CBK), Commercial banks dominate the Kenyan financial sector with a net asset book of Kes. 6.02 trillion as at 31st Dec 2021. The banks are further classified into three tiers by use of a weighted composite index. Banks whose index is above 5 percent and above are classified as a Tier 1 bank, those with an index of between 1 and 5 percent are categorized as Tier 2 while those below 1 percent are classified as Tier 3. The index consists of the number of loan and deposit accounts, net assets, customer deposits, capital and reserves. There are currently 9 banks in Tier 1, 8 in Tier 2 and 22 in Tier 3 (CBK, 2022).

The laws governing the Kenyan banking sector are the Company's Act, the Banking Act and the Central Bank Act. The banking sector in Kenya underwent liberalization in 1995 when exchange controls were lifted and within the last two decades, it has experienced various changes leading to continued increase in profitability, assets, deposits, and product offering predominantly due to the expansion of branch network both in Kenya and to neighboring countries within East Africa (Mwangangi, 2021). Ngumi (2013) found that the banks have continued to enjoy increased product offering coupled with improved activities and structures; thereby, resulting in increase of overall efficiency.

All over the world, the banking industry has recently been subjected to various episodes of turbulence. The United States economy was a victim of the sub-prime mortgage crisis which led to a period of recession starting the summer of 2007 pointing to the central role played by the banks in the world economy (Eichengreen et al., 2009). There are reports of banks in Denmark, India and South Africa also experiencing volatility because of governance issues (Bankelele, 2018).

Similarly, in Kenya, three banks were placed under receivership in quick succession in 2015/2016 and one was consequently liquidated (Muigai & Gitau, 2018). Furthermore, the entry of the Central Bank Amendment Act (2016) which set a maximum rate of interest levied for a credit facility at no more than four percent of the Central Bank base rate resulted in the performance of the banking industry experiencing a marginal increase in net loans and advances due to reduced credit to sectors perceived to be risky. This is because most banks opted to invest in government securities, which reflects the bank’s risk aversion during elections and thereafter the interest capping regime (CBK, 2018). The recent repeal of the interest capping law due to indications that it was damaging the economy indicates an optimistic return to lending. However, the dynamic nature of the economic and business environment has shifted from high interest rate regime indicating the need for banks to take a different approach to business (Brock, 2019). The motivation to carry out the study stems from the reality that even in these turbulent and uncertain times, including the recent Covid-19

Pandemic, not all banks have performed at the same levels with some embracing new ways of operating at faster levels than others. Overall, then, it is the responsibility of the senior bank executives to act expeditiously and employ leadership styles that support innovation or risk entering a decline stage.

Conceptually, leadership outcomes are best evidenced by results. Leadership is only significant to any organization if there is evidence that the performance of any organization has been directly impacted by its leadership (Nohria &Khurana, 2010). Similarly, leadership that is inspirational and visionary in nature is motivational to the employees and leads to superior performance (Northouse, 2021). The role of leaders is best described by the fact that they determine key foundational drivers of an organization such as its culture, incentives and goals which has a direct influence on the followers (Nohria &Khurana, 2010). Overall then, organizations are now more than ever realizing the critical importance of good leadership as most appear to be over managed but under-led leading to increased bureaucracies and slow response to the ever-changing business environment (Kolzow, 2014).

Most recently, the 'digital disruption' caused by the advent of technological innovations has led to cutthroat competition in the sector. The commercial banks have largely leveraged digital platforms to drive strategy with the aim of increasing efficiency which has led to a rise in financial inclusion with 66 million mobile subscribers (CBK, 2022). This number skyrocketed especially after the COVID-19 Pandemic as more people have embraced the use of technology and there has been a growing demand for convenient financial services.

Additionally, regulatory changes such as the Central Bank Amendment Act (2016) that introduced the capping of interest rates have necessitated banks to move from the traditional forms of banking which were characterized by over reliance on interest income from lending activities. The customer needs are also rapidly changing as evidenced by the introduction of new and creative financial products, varied use of alternative channels and advancement in technology (CBK, 2017). Banks are therefore being forced to be innovative to not only remain sustainable but also cover their operating costs and survive as well as report better financial performance.

The Kenya Bankers Association has emphasized on the importance of innovation of new products to offer quality service to the public, while the Central Bank of Kenya has introduced several regulatory interventions with an aim to increase financial inclusion (Omwansa & Waema, 2014). Innovation in the banking sector today can either be categorized as; client independent whereby the client initiates and completes a transaction without any human involvement with the bank, or client helped where a bank employee uses customer assisted advancements as a resource to add to the interaction with the client (Muchunu, 2018).

Leadership plays a pivotal role in the banking sector; the governance structures bestow leadership on the board and senior management. The Kenyan Banking Act (2013) defines Corporate Governance as the way in which the board and senior management govern the business dealings of the institution. The framework and the means of setting and attaining company objectives and monitoring performance are also provided. The Central Bank of Kenya is the regulator charged with oversight and uses prudential guidelines to define the role requirements of the leadership. This includes providing ethical leadership based on integrity and ascertaining that banking activities do not deviate from the set strategy (Osebe & Chepkemoi, 2016). The senior leadership made up of the executive is led by the Chief Executive Officer whose direct reports are the directors in charge of various units such as business development, operations and technology, human resources and marketing among other functions. The heads of departments report to the directors and serve as the middle managers who in turn have junior managers who oversee the staff on the shop floor or banking halls. The organization structures are; however, getting leaner as there is a lot of emphasis on the staff taking leadership at all levels with even tellers being required to take up individual responsibility for business growth (Gautam & Malla, 2013).

The study sets out to answer the emerging call for employment of good leadership style in the banking sector in the face of turbulent and uncertain times where innovation is imperative and has an impact on overall performance.

Statement of the Problem

The banking industry has faced a myriad of challenges that call for new ways of working. The current dynamic operating environment always challenges business executives to embrace the ability to sense and effectively respond to market changes, failure to which, they risk imminent demise of their firms (Sythengekeo et al., 2022). The changing environment has also characterized banking operations as banks move away from the traditional brick and mortar models to more agile systems driven by market demand that call for customer convenience, while providing services at a lower cost. Now, more than ever, leveraging on technology is a key revenue generator for commercial banks which have continued to perform well despite the recent developments from the global financial crisis, interest capping regime and recently, the advent of the corona virus pandemic (COVID-19) in 2020.

In these adverse environments, some Kenyan banks have continued to thrive despite the many forces of change mainly due to increased usage of alternative channels. The dynamic landscape in which the banking sector operates calls for an emergence of leadership styles that shape organizational culture and influence employee behavior towards innovation and increased performance. According to the CBK annual report (2022), the Kenyan banking sector has reported improved performance in the last 3 years as it bounces back from the COVID-19 pandemic. Profit Before Tax (PBT) has risen from 112.1 billion in 2020 to 197 billion in 2021 to 240.2 billion in 2022. The increase in profitability has mainly been driven by an increase in total income compared to total expenses as the banking sector moves towards more technologically driven products and innovative services. The ability to innovate has contributed immensely to the sustainable growth and competitive advantage of commercial banks as they are able to differentiate their service and product offerings to the public (Oweis & Alghaswyneh, 2019). This serves as motivation to carry out the study to investigate the leadership styles used in the banking industry that displays resilience in financial performance as not all banks have performed at the same level with some embracing technology at faster levels than others.

A review of empirical studies shows that leadership style supports innovation and performance (Choudhary et al., 2013; Nusir et al., 2011; Nazim et al., 2017; Su & Baird, 2018; Sythengekeo et al., 2022; Yildiz, et al., 2014). Various gaps have however been identified; first, the studies have been undertaken in other contexts outside the Kenyan/ African settings; thus, reflecting different macro-economic conditions. Secondly, the techniques used were either quantitative or qualitative and therefore were not rigorous enough to show the exact degree of contribution of leadership to firm performance. The study therefore addresses this gap by utilizing a mixed method approach to improve reliability and validity (Demir & Pismek, 2018). For instance, Su and Baird (2018) used the survey method which yielded the limitation that reflected only links rather than causal associations between independent and dependent variables. Thirdly, the various styles of leadership were studied in comparison to each other but not integrated to measure the combined effect. Thus, out of the studies done, it was not clear how the leadership styles contribute to performance when combined with other styles whose indicators theoretically are linked to performance. Previous studies undertaken in Kenya on leadership style and performance were carried out before the capping of interest rates and mainly focused on either leadership effects on performance or leadership effects on innovation or innovation effects on performance (Laparleen, 2014, Mulonzi, 2017). The study sought to build on these previous studies by investigating the effect of leadership style that supports innovation on financial performance which called for replication of studies in other sectors (Sanda & Nana, 2017). Therefore, the central purpose of the study is to answer the question 'how does innovation mediate the relationship between leadership style and performance?

Objectives of the Study

The main objective of the study was to investigate the mediating effect of innovation on the relationship between leadership style and performance. The specific objectives of the study were:

i. To establish the effect of Transformational Leadership on performance of commercial banks in Kenya.

ii. To determine the effect of Transactional Leadership on performance of commercial banks in Kenya.

iii. To establish the effect of Authentic Leadership on performance of commercial banks in Kenya

iv. To assess the mediating effect of innovation on the relationship between extent of practice of leadership style and performance of commercial banks in Kenya.

Research Hypotheses

The study sought to answer the research question; ‘what is the mediating effect of innovation on the relationship between leadership style and performance of commercial banks in Kenya’. Additionally, it addressed the following research hypotheses based on the study’s objectives. The hypotheses are stated in the null form as:

$H0_1$ Transformational Leadership has no significant effect on performance of commercial banks in Kenya

$H0_2$ Transactional Leadership has no significant effect on performance of commercial banks in Kenya

$H0_3$ Authentic Leadership has no significant effect on performance of commercial banks in Kenya

$H0_4$ Innovation has no significant mediating effect on the relationship between leadership and performance of commercial banks in Kenya.

Assumption of the Study

It was assumed in this study that organization leaders employ leadership styles that support creativity and innovation and achieve the desired performance outcomes in the face of dynamic macro-economic conditions. Furthermore, it was assumed that the leaders can take action that ensures that the organization remains resilient in the face of changing environmental factors. Additionally, it was assumed that senior and middle level management were able to provide accurate insights that reflect the reality of the participating banks. An additional assumption is that information on innovation efforts of banks is readily available, and that the macroeconomic environment would remain relatively stable during the period of research.

Justification of Study

The research was undertaken in response to the emerging calls that stem from the theoretical, conceptual, methodological, and contextual gaps. Existing theoretical gaps arising from the need to link the construct of leadership with its outcomes at various levels of organizational analysis were addressed; thereby, informing researchers on the effective leadership styles to be employed by Kenyan commercial banks. This will further enhance the understanding on the deployment of leadership styles in contemporary times.

Various studies have seemingly been undertaken on the subject globally, but few have explored the dimension where the mediating role of innovation is examined. Yildiz (2014) found that both transformational and transactional leadership styles positively affected business performance, but only transformational leadership positively impacted firm innovativeness. This is supported by Koech and Namusonge (2012) and Choudhary et al. (2014) who called for further research to establish how leadership style affects innovation and follower behavior. Sofi (2015) and Nazim et al. (2017) concluded that a positive effect only exists in the relationship between transformational leadership and organization performance and that transactional, participative, laissez faire, supportive and instrumental did not show significant impact. Nazim et al. (2017) also suggested that adopting innovation as a mediator only mediates partially the impact that transformational leadership has on organizational performance. Madanchin et al. (2016) also conducted a literature review which established that leadership style and performance had a positive association and called for further empirical research to determine how and why leadership affects performance.

The empirical studies cited mainly focused on the positivist paradigm with empirical data which has inherent limitations of not providing in depth data and good understanding behind the data collected. Additionally, social phenomenon is extremely complex and dynamic to be placed in the perfect and ideal standards prescribed by positivism. Furthermore, the scientific methodology and analysis of social reality is viewed as external and objective, separate from the observer and viewer which is not practical (Bryman, 2016; Kothari & Garg, 2014). The study adds to the body of existing empirical knowledge by ascertaining the link between transformational, transactional, and authentic leadership and financial performance with the mediating role of innovation as previous researchers have varied views on the relationships.

Introducing interviews to senior managers in Kenyan commercial banks was also used as a data source with the aim of providing insights on their role in providing support for innovation. Triangulation provided meaningful insights into the association between the inquiry approach and the phenomena in the study with an aim of illuminating significance. Triangulating qualitative and quantitative data also provided comparative analysis on the contribution of each data source thereby providing areas of convergence and increasing confidence in the study (Patton, 2015).

Significance of the Study

The study is set to benefit many stakeholders and is timely in the face of the changing operating environment in the recent past calling for new ways of working. The commercial banks are beneficiaries since they will be well informed on the leadership style that best supports innovation and leads to sustainable performance. The learning and development departments within the banks will also be able to undertake training needs analysis and come up with programs that are suitable for building leadership capabilities.

The CBK is also a potential beneficiary as the employment of leadership styles that support innovation will lead to stability in banking operations and income in the face of changing macro-economic environment especially since the banking industry has been a victim of collapse of commercial banks.

Consultants in the areas of leadership and organization can also find the study useful in assisting them develop evidence-based leadership development programs that target the banking industry. This information will also assist in capacity building and enhance learning within commercial banks.

The study further provides new frontiers of knowledge in the areas of leadership and human resource management practices since human resource orientation that leaders embrace influence whether the leader will have a people orientation (soft approach) or performance orientation (hard approach). It further enhances the practice of Transformational leadership based on situational approach especially in changing micro and macroeconomic environments.

Finally, the study provides a knowledge repository for the academic fraternity including leadership scholars, researchers, and lecturers. The report can be used as reference material for lectures from a local perspective which is relatable to their current experiences. This may lead to advancement of further research in the areas of leadership and innovation.

Scope of Study

The study covered the 39 commercial banks regulated by the Central Bank operating in Kenya with head offices in Nairobi County, and particularly the senior and middle management employees. Senior management is responsible for financial performance, and they appreciate how innovation contributes to performance. The middle managers are the implementers of strategy and as the followers of senior management, they also feel the effect of the leadership style employed by their seniors. The commercial banks that formed the unit of analysis comprised all licensed commercial banks as listed in the directory of licensed commercial banks and mortgage institutions (CBK, 2020). The innovations used are mobile banking, internet banking, ATMs, and Debit/ Credit cards. The measures of financial performance to be used are profitability, portfolio quality, financial management and operations efficiency.

Limitations

The study took the assumption that respondents approached were honest and returned a high response rate. It also focused on leadership styles used in commercial banks and did not include other players in the financial sector like SACCOs, Micro Finance Banks and Insurance. This limitation was addressed by pretesting the questionnaire on these financial sector players and this also provides an opportunity for further research. Another limitation was on the collection of qualitative data from senior bank executives through key informant interviews who, due to the nature of their work, had other pressing priorities and feared possible breach of confidentiality. This was addressed by sending the schedule via email so that they can fill their responses at their convenience as well as provision of the research authorization from the university and understanding that the data collected was to be strictly confidential and used for academic purposes only.

Chapter Summary

In this chapter, a general introduction of the concept of leadership, innovation and performance is made. The concept of how leadership styles affect innovation levels and consequently financial performance has been discussed. The chapter has also introduced the background to the study, the problem statement, and the study purpose. The objectives of the study and the research hypotheses and questions are presented. The justification and limitations of the study have also been dealt with. The scope and significance of the study were discussed as well as presentation of operational definition of terms.

Chapter Two: Literature Review

Introduction

This chapter contains a review of literature on leadership, innovation, and performance. It discusses key theories underlying leadership and expounds on the gaps in studies undertaken on leadership style and performance. A conceptual framework on leadership emerging from the study variables is also developed.

Theoretical Literature Review

A theory comprises of variables, a field where variables exist, associations or relationship between variables and precise predictions. A good theory is a limited and fairly precise picture of a given phenomenon (Wacker, 1998) and a good theory is very practical. A researcher must therefore be acquainted with the applicable theories in their area of research (Smyth, 2004). A theoretical framework is a discussion about related concepts, assumptions, and generalizations. It guides research by determining the measurable variables, relationships that are statistical in nature to be evaluated in the contexts of the research problem which provides boundaries by narrowing the field of vision in a study (Roberts, 2010; Smyth, 2004). Therefore, the theoretical framework in addition to helping the researcher to visualize the variables provides a broad structure for analysis of data and aids in selecting a suitable design for the research.

The evaluated theory which informs the study under leadership theory is Behavioral Theory, while diffusion of innovation theory informs the study under Innovation Theory. These theories inform how the study variables were sourced and the relationships among independent and dependent variables.

Behavioral Theory Approach

The main proponents of the theory are Blake and Mouton (1964). The Behavioral Theory originated from studies undertaken at Ohio State and the University of Michigan and Blake, as well as Mouton's Managerial grid (McWhorter 2011; Northouse, 2021). Its focus is on the inherent nature of the leaders and not their actions and proposes that leaders employ two types of behaviors: task or relationship behaviors (Northouse, 2021). In the last half a century, leadership research has mainly centered on identifying various leadership behaviors that can lead to improved performance of work teams (Yukl, 2019). The Behavioral Theory propagates that one can learn to be a good leader by acquiring positive leadership behaviors and actions rather than based on innate traits. This presents the main difference in postulation with other theories such as the Trait Theory which posits that leaders are born with innate leadership characteristics (Kulzow, 2014). Its focus is on how leaders combine these behaviors with an aim of exerting influence on their followers.

Leadership as a concept has for a long time elicited a lot of speculation but the twentieth century ushered in a new era of scientific research into the subject (Yukl, 2020). It has evolved over time from the 1900s where domination and control were the focus with the emergence of trait theory focusing on innate leader characteristics. Behavioral Theory evolved from Trait Theory where there was a shift to group focus in the 1950s with the assertion that leaders are made and not born. The 1960s- 1970s gave rise to organizational behavior approaches with the recognition that environment plays a major role in the leader-follower dynamics; thereby, birthing situational or contingent theories. The 1980s- 2000s welcomed the new leadership era with the realization that due to the complexity of the phenomenon of leadership, one aspect cannot fully address it; thereby, the emergence of transformational leadership (Benmira

& Agboola, 2021; Northouse, 2021). Subsequently, the leadership focus of the 21st Century is on the leadership processes that involve individuals influencing followers to achieve a common goal. Autocratic leadership styles have now paved way to emerging leadership approaches of servant leadership, authentic leadership and spiritual leadership (Northouse, 2021).

The original research by Blake and Mouton resulted in five themes based on the leader's behavior with two blocs; one that focuses on people (relationship oriented) and the other that focuses on tasks known as the leadership grid (Northouse, 2021). The relationship-oriented behavior is aimed at building relationships and maintaining the follower's commitment to the task, building their confidence and cooperation. On the other hand, the task-oriented behavior is focused on improving team efficiency and their reliability to the tasks at hand by centering activities on planning, articulating goals and vision and monitoring follower activities (Iskamto et al., 2021; Yukl, 2019). The value of the grid was to provide leaders with a means of effectively communicating to followers while paying particular attention to their leadership style (Kulzow, 2014). Out of the combination of these behaviors, there are five major emerging styles; authority-compliance, country club management, impoverished management, middle-of- the road management and team management. Team style is the superlative leadership behavior as it combines a high focus on people with a high focus for the task (Kulzow, 2014; McWhorter 2011; Northouse, 2021). Specific behaviors portrayed by relationship-oriented leaders include supporting and developing staff, as well as recognizing and rewarding their efforts as they empower them, while behaviors exhibited by task-oriented leaders include planning work activities, clarifying team expectation while setting and monitoring team performance (Yukl, 2019). The approach brings in a fresh dimension to leadership studies in examining leadership behaviors in varied situations (McWhorter, 2011). The current study addressed one of the concerns of this approach that research has not associated tasks of leaders with certain outcomes such as productivity or performance (Northouse, 2021). The Behavioral Theory sufficiently addresses objectives one to three of the current study by considering one task-oriented style; transactional and two relationship-oriented styles; transformational and authentic leadership styles in relation to performance.

Diffusion of Innovation Theory

For over 30 years, the study of the process of adopting new inventions has been explored with the Diffusions of Innovations (DOI) by Rogers being one of most popular adoption models (Abbas et al., 2019; Ali, et al., 2019; Sahin, 2009; Salim, 2019). DOI seeks to explain how people utilize various innovations (Robinson, 2009). DOI involves the process of communicating an innovation via various channels in each duration of time to community members. The concern of the messages is the new ideas; therefore, the elements of innovation, communication, time and social system must all be present (Rogers, 2003). Rogers' Theory of Diffusions of Innovation is a widely used scholarly reference in technology, diffusion and adoption in studies related to communication, education, marketing, finance, and sociology (Abbas et al., 2019; Sahin, 2006). Diffusion is a kind of community alteration, and it is referred to as the way a change occurs in the role and structure of an organization as invention of new ideas, their diffusion, adoption, or rejection brings about social change. Adoption involves settling full utilization of an invention as the best accessible option and rejection involves deciding that it is best not to take up an innovation (Rogers, 2003).

Settling on an innovation involves a person engaging in seeking out and processing information while being stimulated to quench doubt on the pros and cons of an innovation (Rogers, 2003). It involves five steps which typically follow each other in a timely manner; (1) knowledge, (2) persuasion, (3) decision, (4) implementation, and (5) confirmation (Ali, et al., 2019; Sahin, 2006). The theory is premised on the assumption that the process of innovation diffusion reduces the indecision to take up a product and all innovations should not be assumed to be adopted at an equal rate. Simpler innovations like blue jeans or pocket calculators may take a shorter time to adopt than more complex ones like the metric systems or use of seat belts which may take a longer time (Rogers, 2003).

The characteristics that decrease the uncertainty and help explain the speed of adoption are relative advantage, complexity, compatibility, trialability and observability (Ali et al., 2019; Chigona 2008; Oweis & Alghaswyneh, 2019; Robinson; 2009; Rogers, 2003; Sahin, 2006; Salim, 2019; Yoon & Lim, 2020). The rate of adoption refers to how fast an innovation is taken up in a community (Rogers, 2003). Contemporary organizations have paid particular interest in innovation and its impact on business performance, a phenomenon which is also widely investigated. Innovation is responsible for the firm being able to stand out from competition and attain sustainability in the long run (Gok & Peker, 2017). For organizations to generate innovation there must be a flexible culture that enables quick information exchange and response to new ideas (Xie et. al., 2018). The main aim or intention of innovation is to extract value or utility from a specific product, service or process that has been developed. It results in profit or exploitation for the innovator (Oster, 2011).

In a study carried out on the adoption of mobile banking service in Cihan Bank customers in Iraq, the results showed that the characteristics of DOI- relative advantage, complexity, compatibility, trust, subjective norms and perceived value affects the adoption of mobile banking (Salim, 2019). In another empirical study to investigate the factors affecting customer acceptance of internet banks carried out in Korea, the results supported that relative advantage and trialability positively influenced the adoption of internet banks, while complexity and compatibility did not affect perceived usefulness of internet banks (Yoon & Lim, 2020). An application of DOI theory was applied to a study on customer acceptance towards Takaful products in Pakistan and reported findings that complexity has a negative impact on adoption of the product while relative advantage, compatibility, trialability and observability showed a positive and significant influence (Ali et. al., 2019).

This theory is therefore central to the study as innovation in the financial industry, is perceived as the way in which financial instruments and technologies are created and popularized thereby leading to information access, as well as providing new means of trading and payments (Ngumi, 2013; Yoon & Lim, 2020). Evidently, as the innovations are adopted by the banking sector, the overall output and performance is influenced, which is addressed in objective four of the study.

Models of Performance measurement of financial institutions

Organizations have undertaken various methods in the measurement of performance including the use of Key Performance Indicators (KPIs) and Balance Score cards. It starts from the CEO and senior management being committed to the process and must end with getting various models and measures to drive performance (Parmenter, 2015).

There are various indicators that can be used to determine the level of bank performance. The stability of banks largely depends on capital adequacy and profitability (Ekinci & Poyraz, 2019). The indicators can either be financial or institutional which can be used to measure both risk and performance of financial institutions (Von Stauffenberg et. al, 2003). Measuring business performance involves the evaluation of efforts and resources dedicated to achievement of business goals (Yıldız & Karaka, 2012). The complex and dynamic nature of banking operations exposes banks to various risks such as liquidity risk, credit risk, market risk, foreign exchange risk, operational risk, nominal risk and legal risk which negatively impact profitability, market value, equity and liabilities (Gadzo et. al, 2019). Credit risk is one of the most critical risks faced by the banks since loans granted to customers is the primary source of income (Ekinci & Poyraz, 2019).

Portfolio quality based on the loan portfolio which is the bank's largest asset is the first indicator as in it lies the largest risk for any financial institution. Commercial banks fundamentally exist in any economy for the central function of credit creation or giving loans to their customers (Gadzo et al., 2019). Although a big portion of the loan book is usually secured by the tangible security, the bank is not in the business of recovering non-performing loans but rather interested in maintaining a healthy loan portfolio (Von Stauffenberg et al., 2003). This has led to the introduction of unsecured and turnover-based lending; thereby, it is becoming more critical to maintain a healthy portfolio. The Basel Committee on Banking Supervision (2016) highlights credit risk emanating from lending, and it is the possibility of a borrower or counterparty defaulting on their loan installments as per agreed terms with the lender. Banks therefore manage credit risk by using measures such as Portfolio at Risk (PAR) which is the measure of the asset quality, and it measures the portfolio of the loans infiltrated by unpaid items as a percentage of the total loan portfolio. PAR is a preferable measure as it is easy to compare across institutions, is easily understandable and does not understate the risk. The loans that are typically considered to be at risk are those that are more than 30 days late (Von Stauffenberg et al., 2003).

The second indicator is efficiency and productivity which is determined by how streamlined the operations of an institution are (Von Stauffenberg et al., 2003). Efficiency identifies the ability of leaders in an organization to optimally utilize all given resources and a high level of efficiency depicts higher leadership skills and abilities, whereas lower levels of efficiency indicate the presence of lower leadership skills and abilities (Shair et al., 2021). It reflects performance as it indicates how smoothly various activities in the organization are run (Muigai & Gitau,2018). While efficiency indicators relate to the cost incurred in the acquisition of input and/or the price of outputs, productivity indicators point to the amount of output per unit of input. These indicators are typically not subject to manipulation by management decisions like profitability and therefore can easily be compared across institutions (Von Stauffenberg et al., 2003). The productivity of any given firm can be obtained by how efficiently the organization utilizes technological innovations while minimizing costs and improving scalability (Haralayya & Aithal, 2021). The level of productivity and innovation in an organization is therefore a means of measurement of performance (Muigai & Gitau,2018). Various studies indicate that having more outlets, healthier capital structure and creditworthiness, increased volumes in customer deposits and loans lead to higher profits and better satisfaction of customer and efficiency in administration (Teker et al., 2011). The banks that have more outlets are predominantly the larger banks which are viewed as enjoying economies of scale thereby having lower operational costs. However, this may impede productivity and efficiency because of bureaucracies; therefore, it is critical to not to explore the measures of financial performance in isolation (Shair et al., 2021).

Financial management is the third indicator as it is imperative that any financial institutions pay close attention to ensuring that there is enough liquidity to meet its obligations to disburse loans to borrowers and repay creditors as and when the obligations fall due. Commercial banks are regulated institutions with the fiduciary duty to mobilize deposits from the public; hence, the duty to maintain adequate liquidity becomes even more critical. It also has a tremendous impact on the bottom line when funds are prudently invested. Furthermore, banks trade in foreign currency and therefore exchange risk management and matching maturities of assets and liabilities becomes a critical role of financial management. Various indicators of financial management include funding expense whose ratio is represented by net interest margin which measures the total interest expense that the bank incurs to fund its loan portfolio. The net interest margin is measured by the difference in interest paid to depositors and interest earned from the loans granted to borrowers (Gadzo et al., 2019). Cost of funds is also an indicator of financial management, and it is a ratio measuring the average cost of a bank's borrowed funds and debt to equity ratio which measures capital adequacy as it considers the overall leverage of the bank are used to determine the level of financial management (Von Stauffenberg et al., 2003).

Profitability is the final key indicator that summarizes a financial institution's efforts and the outcome of output to input measure is determined by various ratio such as Return on Assets (Muigai & Gitau, 2018) which determines how efficiently a bank utilizes its assets to proficiently generate revenue. It is a ratio between profit after tax and total assets. Return on Equity (ROE) is another indicator of bank profitability as it determines its ability to use shareholder funds to generate profits. It is a ratio of profit after tax to the total equity invested by shareholders (Ekinci & Poyraz, 2019). Profitability is also determined by other factors such as if the portfolio quality is poor and productivity and efficiency measures are low, the firm is likely to report low profitability. Commonly used indicators include return on equity or assets; however, profitability indicators should not be considered in isolation but in relation to the other factors such as portfolio quality and efficiency and productivity to understand how a firm a firm achieves its level of profitability (Von Stauffenberg et al., 2003).

Empirical Review of Literature

An empirical review of literature is a scholarly exploration of published studies and discussion of theory which produces empirical outcomes related to the topic under study (Zikmund et al., 2010). The empirical literature review of the study was primarily focused on providing a historical review on the development of leadership as well as delve deeper into the concept of leadership. Thereafter, there was a detailed discourse touching on the various approaches to leadership styles and the extent to which various studies have shown how the mediating and dependent variables of innovation and performance are affected by the leadership styles. A summary of gaps in extant literature is also presented followed by the conceptual framework explaining the various variables, concepts and constructs that underpin the study.

Transactional Leadership and Performance

Transactional leadership was developed by Weber and views the leader-follower relationship from a pragmatic perspective. More specifically, proponents backing this style propagate leadership from the view that people will follow a leader because of the rewards and the transactional leader motivates employees by using contingent rewards skillfully (Belmejdoub, 2015; Iskamto et al., 2021). The basis is a social exchange relationship existing among those who lead and their supporters where the leader gives and gets something and on follower's perceptions on fairness, equitable treatment, and justice. The transactional leader believes that people are motivated by rewards or punishment (Kolzow, 2014).

Burns distinguished transactional leadership and transformational leadership by defining it as the leadership model that focuses on give and take interactions between the leader and followers such as offering promotions in exchange of high performance (Northouse, 2021). It is however worth noting that Bass viewed transactional and transformational leadership as different but styles that can be utilized jointly (Yukl, 2020). The transactional leader is responsive, works within the organizational system or prevailing culture (Kolzow, 2014; Liu et al., 2011) and tries to inspire followers by appealing to them on a personal level with while exchanging rewards for performance (Abdelwahed et al., 2022; Kolzow, 2014; Yukl, 2020). Moreover, by the leader dispensing rewards or punishment, there exists an element of contractual character of give and take through self-interest motivation (Belmejdoub, 2015). These rewards have failed to sufficiently motivate employees as some employees have not sufficiently responded to tasks efficiently to meet the set targets (Saif & Siti, 2022). This is unlike the transformational leader who in contrast individualizes the needs of the followers (Northouse, 2021) is proactive, works to drive culture change through new ideas while appealing to employees to achieve better results by appealing to their higher principles and values (Kolzow, 2014).

The transactional leader's influence is based on instrumental compliance to set parameters whereby they apply disciplinary controls to motivate employees' best performance (Abdelwahed, 2022; Yukl, 2020), and comes from the fact that it is in the follower's interest to do as the leader wishes as they offer attractive incentives that appeal both parties' agendas (Northouse, 2021). The leader does not require his followers to go beyond his expectations leading to little or no creativity His main strategy is based on averting risk while focusing on deadlines, set procedures and competence to effectively undertake the task (Liu et al., 2011). In times of uncertainty, however, the transactional leader needs to employ certain additional competencies such as crisis management, which is more important than their work experience (Jaaffar et al., 2023). Nevertheless, the transactional leaders may uphold principles but only those tied to the process of exchanging benefits like truthfulness, equity, accountability and giving in return (Yukl, 2020).

Hollander developed the four main constructs of transactional leadership as; contingent rewards, active management by exception, passive management by exception and laisser faire. As discussed earlier, contingent rewards involve clearly stating tasks and incentives and following through on the promise to reward or punish after accomplishing the tasks. Active management by exception involves watching followers closely to find mistakes and put in force regulations to steer clear of errors, while the passive form is where the leader intervenes only where followers have performed below acceptable levels where principles have been violated or problems have arisen (Northouse, 2021; Yukl, 2020). Further, laisser faire involves the transactional leader's approach being laid back towards the followers and is non-responsive to the followers' needs and opinions (Belmejdoub, 2015). Transactional leadership involves the leader-follower interaction being task oriented where the leader's main role is helping team members finish the main job at hand (Xie et. al., 2018). The transactional leader's focus is on task accomplishment and is more of a manager than a leader whose major concern is processes, rules, procedures and standards rather than employee development; thereby, leading to mediocrity (Kolzow, 2014), as new ideas are rarely welcome given, the concept's main focus is to 'keep the ship afloat' (Abdelwahed et al., 2022).

One of the study's specific objectives was how transactional leadership affects performance in the banking industry. From the empirical literature reviewed, it is apparent the transactional leader and employee interaction is mainly centered on goals and rewards such as; salary, bonuses and promotions which may lead to mediocrity in performance. In addition, where the followers view the reward as insufficient, they may not be motivated to work hard leading to low achievement on performance (Kolzow, 2014). A transactional leader works within a structure of self-interests and manages the rewards for those who carry out tasks as instructed and punishments for violations (Abdelwahed et al., 2022; Paraschiv, 2013) which the followers may decide to sabotage as they may feel left out. Since transactional leadership is built upon a give and take process, followers may choose to fulfill the leader's requests albeit unenthusiastically and without much commitment to task requirements. Bass avers that the transformational leader motivates followers to perform at higher levels than transactional leader although for more effectiveness, the leader may choose to utilize both styles (Yukl, 2020).

Yildiz et al. (2014) who researched in the service and industrial sectors in the city of Istanbul, Turkey to determine the impact of leadership style and innovativeness on performance concluded that transactional leadership impacts organizational performance positively but only after transformational leadership and innovativeness. This is because the transactional leader creates an environment where employees strive to achieve both the tangible and intangible rewards. These results are comparable to those of Saif and Siti (2022) who carried out a study in the construction sector in the United Arab Emirates and found that transactional leadership had a significant relationship with performance when predicted by organizational fairness, but only ranked second after transformational leadership. Similarly, Novitasari et. al (2021) carried out a study at a private university in Indonesia and concluded that transactional leadership has a positive impact on innovation performance of lecturers after transformational leadership.

In contrast, in another study carried out among 20 banks in the United Arab Emirates to assess the impact of leadership style on organizational performance, Khajeh (2018) found that transactional leadership negatively impacted organizational performance. The conclusion was that transactional leadership did not stimulate employees' performance and it additionally encouraged high labor turnover rates among the employees as it did not instill a sense of belonging. Additionally, in a parametric analysis carried out on leadership style and organizational performance by Nazim et.al., (2017), transactional leadership was also not found to be a significant predictor of organizational performance. The study was undertaken in the pharmaceutical sector in Lahore, Pakistan using convenient sampling to explore the impact that leadership style has on organizational performance, while being mediated by organizational innovativeness. Similarly, in the same context of Pakistan, a study undertaken on small and micro enterprises by Abdelwahed et al. (2022) to investigate the impact of transactional leadership and entrepreneurs' passion for employee's performance generated results that demonstrated a positive and significant effect of transactional leadership on performance, when mediated by entrepreneurs' passion.

In an empirical assessment whose objective was to assess how leadership style impacts performance, carried out in India on selected banks, Sofi and Devanadhen (2015) concluded that transactional leadership had an insignificant impact on performance. Organizational culture was identified as mediating the association between leadership style and organization's performance. The importance of effectively applying leadership style was concluded to determine how successful an organization, group or society will be in achieving their long-term goals. This agrees with the results carried out in the Jordanian hotel industry by Jaaffar et al. (2023) who concluded that transactional leadership has an insignificant effect on performance and Xie et al. (2018) who carried out an empirical study in China on leadership style and innovation atmosphere on enterprises and found that transactional leadership style negatively impacts innovation atmosphere.

Closer home, a study carried out on selected Nigerian banks to assess how leadership style impacts organizational performance, Ojokuku et al. (2013) concluded that transactional leadership negatively impacted on organizational performance as it may demoralize the employees and lead to high turnover. He also concluded that leadership style counted for 23% variance of organizational performance. In contrast, a study carried out in Kenya to examine the effect that leadership style has on organizational performance in public institutions, Koech and Namusonge (2012), concluded that transactional leadership positively impacted organizational performance. This was mainly due to the 'carrot and stick' approach that served as a helpful motivator to the followers to attain their goals as the constructs of contingent rewards and active management by exception had a medium positive correlation with performance.

Even though there is empirical evidence from the studies reviewed, mixed results in the association between the variables emerge. First, the studies elicit mixed conclusions among the researchers as some found it to have a positive effect (Abdelwahed et al., 2022; Koech & Namusonge, 2012; Yildiz et al., 2014), others found it to have a negative effect (Jaaffar et al., 2023; Khajeh, 2018; Ojokuku et al., 2013; Xie et al., 2018), while others like Nazim et al., (2017) concluded that it did not serve as a significant predictor in the relationship. Sofi and Devanadhen (2015) also found it as an insignificant impact on organizational performance. Secondly, the studies were mostly undertaken outside the African or Kenyan contexts and in across different sectors. Thirdly, the methodologies used were not comprehensive enough to show the exact degree of transactional leadership's contribution to organizational performance.

Transformational Leadership and Performance

Burns conceptualized transformational leaders as those who tap on their followers' motives to better arrive at the common objective for both leaders and followers (Northouse, 2021). Additionally, transformational leaders appeal to the followers' ethical values so that they are conscious of ethical issues and their energy and resources are channeled towards bringing about organizational reforms (Yukl, 2020). Transformational leaders value their followers' ideals and values while motivating them to put the interests of the organization first while driving them to be their best self (Nandasinghe, 2020; Xie et al., 2018). Transformational leaders are perceived to draw their followers as they employ the use of charisma; thereby, converting idealization into realistic action which involves connecting organizational tactics and psychological characteristics that bring about change in the organization (Nazim et al., 2017). Moreover, it is a process of building loyalty of followers by making changes in their attitudes to achieve organizational goals, as the leaders direct each of the employees on the path to be better at the tasks assigned (Abdelwahed et.al., 2022; Yildiz et. al., 2014).

Bass extended the work of Burns and posited that transformational leaders motivate employees to better their achievements above expectations while raising their awareness on the significance of higher goals; thereby, encouraging followers to reach for higher level needs for the benefit of the organization rather than mere self-interests (Northouse, 2021). Indeed, the transformational leader motivates and inspires a compelling vision and develops a mentoring and coaching relationship with followers (Kolzow, 2014; Nandasinghe, 2020). This ultimately leads to sustainable performance through influencing responsible practices and actions of the followers (Piwowar-Sulej & Iqbal, 2022).

Transformational leadership (TL) serves as a link between the leader and the follower by being considerate of the interests, values, and levels of motivation for the followers (Ojokuku et al., 2012). It is made up of four constructs: charisma or idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Nazim et al., 2017; Northouse, 2021; Yildiz et al., 2014). Idealized influence forms the leader’s emotional element and it is commonly referred to as charisma (Northouse, 2021). In addition, it increases the follower’s identification with the leader (Yukl, 2020). The followers look up to the leader and want to emulate them as they depict high standards of moral and ethical values (Northouse, 2021, Kolzow, 2014). The behavior of the leader is a positive example to the follower that instills in them pride and trust (Kolzow, 2014).

Inspirational motivation involves communicating a compelling vision by use of symbols (Yukl, 2020) that involves high follower expectation and inspires them to adopt the organization's vision (Northouse, 2021). The leader has a sense of passion, enthusiasm, team spirit and optimism (Grošelj et al., 2020; Kolzow, 2014). The influence process in transformational leadership is achieved through cascading of the required behavior across different levels of the organization's structure and involves internalization (Yukl, 2020). Intellectual stimulation tests the followers' collective beliefs while inspiring their creativity and innovation (Northouse, 2021). The leader questions old beliefs, casts new perspectives into existing challenges (Kolzow, 2014; Yukl, 2020) by seeking new ideas, while nurturing followers who value learning (Kolzow, 2014). Individualized consideration involves the leader being a keen listener to followers' needs while creating an accommodating environment (Northouse, 2021) and seeks to develop them by providing support, coaching, mentoring, and developing them (Kolzow, 2014; Yukl, 2020). Different researchers perceive transformational and transactional leadership as either competing or complementary. The transformational leader's effectiveness is considered to surpass that of a transactional leader, and it has a positive correlation with performance (Paraschiv, 2013). Transformational leadership possesses change oriented components that are vital in dynamic, volatile and unstable environments where change is inevitable, and leaders are empowered to be innovative (Yukl, 2020).

The concern of this study is how TL affects performance in the context of the banking industry in Kenya. A great body of empirical literature indicates that transformational leadership predicts positive organizational outcomes of changed follower behavior leading to high levels of organizational performance (Kolzow, 2014). Several empirical studies provide evidence that confirms the conceptual and theoretical proposition that TL can positively predict organizational performance.

In research undertaken to determine leadership style influence on organizational performance in 20 selected banks in the United Arab Emirates, Khajeh (2018) avers that the transformational leader focuses on overall skill building, moralities, and motivating followers. He found that transformational leadership style positively impacted organizational performance as it offers employees a value system and a sense of belonging, providing them with skill building, in addition to participation in making decisions. Saif and Siti (2022) also carried out a study in the construction sector in United Arab Emirates and found that there was a significant relationship between transformational leadership and performance of employees. Similarly, Grošelj et al. (2020) conducted a study in an international technology company in Eastern Europe and found that transformational leadership positively influences innovative behavior when moderated by psychological empowerment. Yildiz et al. (2014) undertook a study in Istanbul, Turkey across the service and industry sectors using explanatory research to assess leadership styles and innovation’s influence on performance and found that transformational leadership yielded a higher positive effect than transactional leadership on performance. Similarly, Xie et al. (2018) carried out an empirical study in China on leadership style and innovation atmosphere on enterprises and found that transformational leadership style positively impacts innovation atmosphere. Further Novitasari et al. (2021) carried out a study in the education sector in Indonesia and found that transformational leadership had a positive impact on innovation performance of lecturers.

Grošelj et al. (2020) conducted a study in an international technology company in Eastern Europe and found that transformational leadership positively influences innovative behavior when moderated by psychological empowerment. Novitasari et al. (2021) also carried out a study in the education sector in Indonesia and found that transformational leadership had a positive impact on innovation performance of lecturers. In a study to investigate the influence of transformational leadership on organizational innovation in the Malaysian manufacturing industry the results indicated that intellectual stimulation ranked first in determining innovation (Chan et al., 2019). A study carried out to examine the relationship between leadership styles, leaders experience, crisis management and hotel management in the Jordanian hotel industry showed that transformational leadership style has a significant positive effect on hotel performance (Jaaffar et al., 2023).

Additionally, Choundhary et al. (2013) undertook a study in Pakistan on privately owned firms across three sectors; hotel, telecommunications, and banking to assess transformational leadership and servant leadership's effect, as two types of ethical leadership approaches on performance with the relationship mediated by organizational learning. The study concluded that transformational leadership's impact on organizational performance is greater than servant leadership. The study also suggested extension of research to check how the leadership styles affect innovation which in turn leads to better performance.

Closer home, a case study to assess the effect of transformational on employee performance in Tanzania found that respect and integrity of the leader through idealized influence positively influence employee performance in a sports development college. It was however a limited study as it only analyzed one sports organization thereby prohibiting generalizability (Kombo & Magali, 2023). A study carried out in the Kenyan Insurance Industry by (Linge and Sikalieh, 2019) to investigate the influence of transformational leadership on employee job performance, the results concluded that idealized influence had a significant influence on job performance when moderated by employee work value congruence. In another study by Nyokabi et al. (2017) to investigate the effect of idealized influence construct in transformational leadership of the CEO on performance in the private sector in Kenya found a significant and positive effect when moderated by goal orientation. This is because the employees feel that they fit right in, can take up more responsibilities with minimal observation and are facilitated to reach their individual goals which boost the organization's effectiveness.

Transformational leadership positively influences organizational performance as the combination of its four constructs lead to high performance beyond expectations due to followers' focus on a compelling vision (Jaaffar et al., 2023). This is because the leadership style focused on follower development and paid attention to their needs. Generally, from the previous empirical research, there is overwhelming evidence that transformational leadership has a significant positive relationship on organizational performance.

Despite the evidence obtained from the empirical studies on TL, the reported studies have however demonstrated several weaknesses. First, most of the cited studies have been undertaken outside the Kenyan/ African settings and across different sectors; thereby, reflecting different macro-economic conditions. Secondly, the techniques used were not rigorous enough to show the exact degree of contribution to firm performance.

Thirdly, TL was studied in comparison with other leadership styles but not integrated to measure the combined effect. Thus, out of the studies done focusing on TL, it is not clear how TL contributes to performance when combined with other leadership styles whose indicators are theoretically linked to performance.

Authentic leadership and Performance

Authentic leadership is increasingly gaining popularity in the leadership spheres (Avolio & Gardner, 2005) with it being regarded among the latest scholarly areas in leadership. It centers on the genuineness of the leadership. It is about the leaders' authenticity and their practice and is still in the formative developmental phases (Northouse, 2021). Avolio et al. (2003) posit that authentic leaders are deeply aware of their thoughts and behaviors and the follower's view of them. Their followers perceive them as projecting a consciousness of their personal values as well as their teams, being knowledgeable of their strengths and weaknesses and their effect on their contextual setups.

Authenticity is increasingly becoming an emerging social trend and has been referred to as a gold standard of leadership (Grošelj et al., 2020). However, as a concept, it can be traced to the ancient Greeks who based their beliefs on the caution that one should always be true to themselves (Harter, 2002). At the same time, it is described as having sprung up from man's personal conflict within themselves arising from their frustration with the meaninglessness of existence (Chan et al., 2005). Another definition describes authenticity using the injunction from the Ancient Greeks, to 'be true to self' and points out the adage means that one has a true self that exists independent from other persons. This self is shaped by prior developmental interactions with other persons and the environment (Gardner et al., 2005).

Individual authenticity comes from social interactions and is to be produced as one is guided by their inner conscience. Authentic leaders are value centered and seek to be consistent in acting out only on the values that they promote. This results in them developing followers into leaders because they gain admiration from consistently acting from their value systems (Fry & Whittington, 2005). Additionally, they know their true selves and live their lives for themselves and their true north points them towards their purpose of leadership resulting in authentic leadership where people want to be associated with them (George & Sims, 2007). Cultivating authenticity is key as the three characteristics of authentic leadership are being open, transparent and trustworthy, directing followers to pursue commendable objectives and placing weight on developing followers (Varella et al., 2005). Additionally, authentic leaders pay special attention to those displaying these characteristics and the conditions where they operate in (Avolio et. al, 2004)

Authentic leadership is a foundational leadership component; therefore, nearly all styles of leadership can use it as a basis to define their type of leadership. A leader applying transformational, transactional, directive, or participative styles may still be referred to as being an authentic leader (Avolio & Gardner, 2005; Hughes, 2005; Ilies et al., 2005). Authenticity as a model is grounded in psychology even though as a theory, authentic leadership may be in the inception phases of development. It posits that authenticity leads to heightened self-esteem levels and the authentic actions and behaviors displayed by the leader are consistent with their espoused principles and beliefs (Walumbwa et al., 2008). In today's world where many problems are emanating from leaders' selfish interests in seeking personal profits, there is need for leadership that contributes sustainably and in a long-term manner; thereby, giving rise to AL. The call for AL can therefore be the antidote to a myriad of challenges affecting organizations (Jang, 2022).

Overall, then, a leader's authenticity in his leadership largely depends on his capacity to display authentic behavior in all his personal dealings. Authenticity serves as a leadership multiplier as the authentic leader tends to accomplish more as compared to other leaders (Chan et al., 2005). It is crucial to maintaining long-term results as a leader without it can only achieve short-term success (Jang, 2022; Grošelj et al., 2020). Kernis (2005) as cited in Hughes (2005) posits that authenticity is operating daily in a way that is unhindered and true to the individual's core character. That means that to be regarded as authentic, one must accept and be aware of their true self despite the circumstances in their environment (Hughes, 2005). The rising theoretical interest in authentic leadership is expressed by the components that distinguish it from other perspectives of leadership (Avolio & Gardner, 2005). The Kernis model proposes a four-component model of authenticity as; self-awareness, balanced information processing, authentic behavior and relational transparency (Gardener et al., 2005; Hughes, 2005; Ilies et al., 2005). Positive psychological capital (Avolio & Luthans, 2006) and positive moral perspective which are areas of divergence also feature as components (Gardner et al., 2005).

Awareness as a construct of authenticity is the ability to know and trust one's value systems, motives and personal attributes and being cognizant of how they influence the way they think, feel, act and behave including any inconsistencies in the self-aspects (Ilies et al., 2005). Leaders possessing greater self-awareness are considered as being more genuine (Avolio & Gardner, 2005) and followers are therefore able to trust them as real and not a replica of someone else. They possess the ability to learn from themselves which contributes to followers' progress (Grošelj et al., 2020). Self-aware individuals have high self-esteem, high self-efficacy, are emotionally stable and possess an internal locus of control (Ilies et al., 2005). In the organization context, self-aware individuals will make better leaders. Authenticity is a continuous state for the leader who attempts to achieve greater self-awareness and it ranges from more to less authentic rather than existing in a dichotomous state in which we are either authentic or not (Hughes, 2005). Authentic Leadership Development (ALD) involves situations, events and experiences in life that impact how leaders view themselves and how they want to influence their followers (Avolio & Luthans, 2006).

The second component is balanced information processing, and it involves the leader's ability to process information relevant to self-including, not being in denial, altering, overstating or overlooking any internal self-knowledge and information from external sources that may be used to assess their leadership. It is at the core of one's personality and integrity which has an impact on the leader's ability to make decision and deeds and have implications for their welfare (Ilies et al., 2005).

Authentic behavior depicts people acting in harmony to their self-espoused values, inclinations and desires and not just acting falsely with wrong motives to please others (Ilies et al., 2005). In some instances, it may be possible that when one expresses their true self, they may project a powerful self-image with conduct that may need to be monitored or else end up lacking community approval. Kernis (2005) as cited in Ilies et al. (2005) supports this by postulating that the leaders must act in sensitive ways to balance true self-expression while acknowledging the potential connotations their behavior may have in their surroundings.

Relational transparency is all about placing value and striving to attain follower and associate relationships that are open and truthful resulting in heightened trust levels (Ilies et al., 2005). The leader is obligated to assist followers have a true view of the leader's personality (Hughes 2005). Relational transparency also displays the leader's true being as it is revealed by self-disclosure, comprising of the expression of the four facets of GIVE which are the goals/motives, identity, values, and emotions. These are triggered by significant happenings that the leader may not be aware of. However, the fact that they acknowledge them manifests in their actions and their ability to be transparent in their relationships (Hughes, 2005).

The leader's personal resources are pointed out as emanating from their positive psychological states of being confident, optimistic, hopeful, and resilient. When they are combined with a conducive environment in the organization and moments that activate them, the positive states increase behaviors that make the leaders more self-aware and able to self-regulate, leading to positive self-development process (Avolio & Luthans, 2006). In today's turbulent and unprecedented times, the positive psychological capacity of resilience which is being able to adapt, rebound and thrive in the face of harsh conditions is vital to ALD (Youseff & Luthans, 2005). These positive capacities can be developed or changed and are therefore important in people, team, and community development (Avolio and Gardner, 2005). Authentic leadership is associated with positive psychological states and the leaders are confident, hopeful and optimistic; hence, foster positive follower emotions and develop followers into leaders (Dasborough & Ashkansy, 2005; Yousseff & Luthans, 2005).

Internalized Moral Perspective is described as a clear and ethical process of arriving at decisions where authentic leaders build up and pull from reservoirs of abilities to act morally, courageously and in resilient ways to tackle matters based on principles and realize true and sustained ethical deeds (Avolio & Gardner, 2005). Moreover, for a leader to attain authenticity, they must possess a superior moral development level (Walumbwa et al., 2008). The leaders' ability to develop their morality is predicted on the amount and value of moral content held in memory (Hannah et al., 2005). Authentic leaders possess the capability of looking at moral issues through varied lenses and viewpoints; therefore, they can tone down their prejudices and unknown spots that may alter their evaluations. Additionally, they tend to possess an impartial and refined understanding of the details that are involved in complex ethical issues (Avolio & Gardner, 2005).

This study aimed at determining how authentic leadership affects performance in the banking industry context. The pragmatic view of authentic leadership submits that it is a means for genuine outcomes leading to performance beyond expectations and actual growth (Gardener et al., 2005; Luthans & Avolio, 2003). Authentic Leadership Development (ALD) is "the process that draws upon a leader's life course, psychological capital, moral perspective and a 'highly developed' supporting organizational climate to produce greater self-awareness and self-regulated positive behaviors, which in turn foster continuous, positive self-development resulting in veritable, sustained performance" (Avolio & Luthans, 2006, p. 178). It is not an overnight process but a journey, as it takes a clear commitment to growth and development as life may easily lure one away from their 'True North' which is the inward compass that one needs to steer themselves towards a successful life (George & Sims, 2007). ALD emphasizes authenticity of being true and aware of oneself and to others and is a developmental process that achieves that end goal (Avolio & Luthans, 2006).

Authentic leaders lead from the front and are open in the way they make decisions which provides a practical example on how to behave at work and remain emotionally, physically, and cognitively at work; thereby, resulting in higher levels of follower performance (Wang et al., 2014). Authentic leaders demonstrate confidence, hope and optimism, qualities worth emulating and the resultant trickle- down effect is the follower's growth which leads to better job performance (Sarwar, 2023). It is upon authentic leaders to cultivate socialized as opposed to personalized charismatic leadership where they use their inspirational power to move organizations and groups to accomplish shared, worthy goals that promote progress of their organizations. The desire to serve the collective good will result in positive manifestation of socialized charismatic leadership, which is highly relevant to authentic leadership, authentic followership, and sustainable, genuine performance (Varella et al., 2005). Leadership is a social construct involving followers and, review of literature on authentic leaders reveals that better relationships between leaders and followers yield better results in the organization and vice versa (Gardner et.al, 2005; Northouse, 2021; Wang et al., 2014). Due to the increased curiosity in authentic leadership, empirical literature has emerged on how authentic leadership influences performance to back theoretical literature. Walumbwa et al. (2010) revealed a positive relationship between authentic leadership and performance, job engagement and citizenship behavior.

Sarwar et al. (2023) carried out a study in the educational sector in China and the findings established that AL positively influences performance directly and indirectly through psychological capital as the leaders depict self-awareness. In a study carried out in a military base, Ridderhoff (2013) found that authentic leadership positively influences team performance even in strenuous conditions as the inherent characteristics displayed by the authentic leaders are more pronounced in stressful situations. Datta (2015) equally found that the scope of a leader's effectiveness in varied areas such as the performance of the leader, ability to satisfy the needs of the followers and good progress in the value of work produced is because of AL. Lyubovnikova et al. (2017) carried out a survey in the United Kingdom and Greece to establish how AL influences team performance and concluded that the construct of AL collectively shapes team behavior through team reflexivity and positively predicts performance. Similarly, Grošelj et al. (2020) conducted a case study in a multinational technology company in Eastern Europe and concluded that there was a positive relationship between AL and innovative behavior specifically when moderated by psychological empowerment.

Wang et al. (2014) undertook a study in a Beijing in a Chinese logistics firm to assess the impact of AL and performance and found that follower's psychological capital acts as a moderator on the positive relationship between AL and performance. In another study carried out on Portuguese workers, Ribeiro et al. (2018) concluded that follower emotional commitment mediates the role between AL and performance. The association was further tested in two Jordanian telecommunications firms and the results revealed that working environment, creativeness and work performance are positively influenced AL (Alzghoul, 2018). The results in an analysis carried out in the business sector in Portugal revealed a statistically significant positive relationship between authentic leadership and performance (Duarte et al., 2021)

Another study carried out in the best telecommunication companies in Iran to assess the impact of AL on team satisfaction and commitment which are predictors of performance found a positive correlation. It was revealed that teams with leaders who depicted the constructs of authentic leadership; self-awareness, self-regulation, balanced processing and relational transparency had more satisfied and committed employees who were able to perform better at their jobs (Darvish & Rezaei, 2011). Self-awareness exhibited the most significant positive relationship in a Kenyan study by Chimakati and Oduol (2023) carried out at the Teachers service commission to investigate the attributes of authentic leadership and ethical sourcing performance. Similarly, a study carried out to establish the effect of authentic leadership and motivation on employee performance in Kenyan commercial banks found a statistically significant effect because leader's lead from an ethical standpoint (Masimane, 2023).

The review of empirical studies above on AL were carried out using either quantitative or qualitative methods therefore the study seeks to introduce a mixed method approach. This way the findings would produce more accurate results in management research and provide a broader perspective on social phenomena, enrich the results, and obtain a comprehensive understanding of the study under examination. They also employed different intervening variables from innovation and were not able to show the combined contribution of AL to performance when tested with other leadership styles.

Mediating effect of Innovation

Turbulence and complexity in the contemporary world have replaced stability and predictability. Organizations and leaders face a myriad of challenges such as businesses operating in an international scale, extreme business rivalry, thorough scrutiny of ethics, the call for responsive businesses, digitization, and a diverse workforce (Daft, 2008). Organizations must therefore be innovative as customer needs are rapidly changing signaling the need to introduce new products, services and business models. Businesses that refuse to be innovative risk experiencing declining performance levels (Yildiz, 2014). Today's business environment acts as a catalyst for innovation because various occasions to produce novel designs exist in incompatibilities and disruptions in current work processes, unmet customer needs or signs of changing times (De Jong & Den Hartog, 2007). Organizations today are provided with the potential to respond to environmental and technological challenges through the channel of innovation (Sawasn et al., 2019). Innovations have also been embraced by financial institutions with the aim of passing cost savings by reducing the costs per financial transaction as well as staff costs (Oweis & Alghaswyneh, 2019).

Innovation is responsible for a firm's achievement of sustainable advantage and its capacity to distinguish itself from competition while delivering high customer value (Gök & Peker, 2017, Nabi et al., 2021). Previous empirical research points to the significance of leaders backing innovation. Employee creativity may be affected by leader's encouragement, support, open communication and efforts to give feedback (Yildiz, 2014). While leadership styles are effective in improving organizational performance, innovativeness is vital to promoting sustainability and competitive advantage (Nazim et al., 2017).

Generally, innovation may be defined as the process of generating ideas or taking on (using) novel ideas, processes or items (Walker et al., 2011). It is the degree to which an organization makes use of an idea ahead of its peers (Rogers, 2003). An innovation is only as good as its application as the innovation process consists of the commencement and execution phase (De Jong & Den Hartog, 2007). In broad terms, it involves not only creating and using new ideas but also executing new ways of doing and organizing business as well as its dealings with outsiders (Yildiz, 2014). Innovation can either be radical or incremental (Sawasn et al., 2019) and the result of successful adoption of new ideas to the organization is to commercialize or make profit from the new products, services, or processes (Gök & Peker, 2017; Muchunu, 2018). Innovations should also generally improve service delivery to its constituents (Walker et al., 2011) which is integral to the banking industry. Employees in any organization are critical to the improvement of business performance as they can innovate and produce new ideas which serve at the same time as a foundation intended to create new products and services.

Leadership is a change producing process and not an effort to retain the same standing. Leaders must be promoters of change in the organization as they have the control to inspire and persuade their followers towards better achievements (Baesu & Benjiniru, 2013). The transformational style is the most ideal for supporting change (Daft, 2010; Northouse, 2021). Creating a change readiness environment within the organization is the leader’s job and the desired competency areas are creating a case for change by building awareness, create structural changes, winning the team over, executing and supporting changes and aiding and creating capabilities (Baesu &Benjiniru, 2013). Change leadership is the essence of leadership and is considered as one of the most crucial and challenging tasks that leaders undertake globally (Yukl, 2020). Therefore, the most fundamental and elementary source of successful competitive advantage for any organization is found in its leadership. It cannot succeed if it does not have the right quality of innovative and effective leadership regardless of how good the strategy is (Agbor, 2008). Application of innovation is a rigorous and costly affair as it calls for expending of employee’s energy because it cannot happen accidentally, but time and resources must be applied to create and execute new ideas (Daft, 2010).

Leaders play a pivotal function in influencing employee work behavior including innovative behavior (De Jong & Den Hartog, 2007). The leader's role is to constantly reiterate to the followers how valuable and important innovation is by thinking of it, matching their speech to their actions and following up to ensure the staff are devoting time and energy on innovative issues (Daft, 2010). Therefore, having the right crop of leaders who take interest on innovation as well as proper leadership structure in place is key in ensuring that innovation takes off as they may easily suppress innovation (Agbor, 2008) which may place the very survival of the organization at a threat. The study delved into technological innovation adapted by the Kenyan banking sector and considered mobile banking, internet banking, ATMs and debit and credit cards as indicators of innovation.

There is vast empirical evidence existing to demonstrate the link between leadership and innovation. De Jong and Den Hartog (2007) in their study found that leaders, through actions that encourage innovation influence their employees' innovative behavior. There is a close relationship existing between transformational leadership and creativeness of followers as Cheung and Wong (2011) found a strong positive co-relation between transformational leadership and the creativity of employees which is even stronger when leaders provide support for their tasks and relationships. Similarly, Nabi et al. (2021) carried out a study in the textile industry in China to investigate the impact of TL on radical innovation for sustainability and found that TL has a positive impact on innovation. A great body of empirical research exposes the existence of a significant and positive association among transformational, transactional, and authentic leadership styles and staff creativity and innovation (Khalili, 2016; Müceldili, 2013; Sanda & Nana, 2017; Sawasn et. al., 2019; Schuckert, 2018, Zhou, 2014).

However, contrasting results of Liu et.al. (2011) revealed that transactional leadership had a negative association with innovativeness, while Nazim (2017) concluded that while transformational leadership and innovativeness positively predict organizational performance, transactional leadership and innovativeness did not positively predict organizational performance. He however, concluded that applying innovation as a mediator in the correlation between leadership style and performance stimulates the association.

Summary of Literature and Knowledge Gaps

From the related literature review, several writers have strongly brought out that leadership style positively influences performance (Abdelwahed et al., 2022; Choudhary et al., 2013; Chimakati & Oduol, 2023; Igbaekemen & Odivwri, 2015; Masimane, 2023; Mulonzi, 2017; Nandasinghe, 2020; Ribiero, 2018; Ridderhorf, 2013; Saif & Siti, 2022; Tawaha, 2016; Xie, et. al, 2018;), while Ojukuku (2013) found that both negative and positive association exists between leadership styles dimensions and performance. Charismatic, transactional, and bureaucratic styles have negatively influenced performance while transformational, autocratic and democratic styles positively influenced performance.

Various authors recognized that the leadership style and performance association is mediated by innovation (Sawasn et al., 2019; Nazim, 2017; Yildiz, 2014). While there was consensus that transformational leadership and authentic leadership positively influenced the association among innovation and performance (Cheung &

Wong, 2011; Khalili, 2016; Müceldili, 2013; Nusir & Bae, 2012; Sanda & Arthur, 2017; Zhou et. al, 2014), Elrehail et. al, (2018) established that while transformational leadership positively influenced innovation, authentic leadership did not positively affect innovation. There was a lack of consensus on other leadership styles like transactional leadership with some writers finding a negative relationship with innovation and performance (Khajeh, 2018; Liu & Zeng, 2011, Nazim, 2017) while Yildiz (2014) found a positive relationship.

When all the literature review findings are combined, there is a complementary and triangulation purpose for a mixed study method. The quantitative part of the study explained what? Which are the causal effects but not the why? The qualitative goes beyond the causal and explains why the relationships hold. The complementary purpose discovered related areas and uniqueness within the phenomena under study, while triangulation was used to cross-check and substantiate results using different types of data (Sadan, 2014). The empirical studies cited mainly focused on the positivist paradigm with empirical data which has inherent limitations of not providing in depth data and good understanding behind the data collected. Additionally, social phenomenon is extremely complex and dynamic to be placed in the perfect and ideal standards prescribed by positivism. Furthermore, the scientific methodology and analysis of social reality is viewed as external and objective, separate from the observer and viewer which is not practical (Bryman, 2016; Kothari & Garg, 2014). The study intended to increase to the body of existing empirical knowledge by ascertaining the link between transformational, transactional, and authentic leadership and financial performance with the mediating role of innovation as previous researchers have varied views on the relationships. This was further enhanced by triangulation of the data sources through use of secondary data from published financial results of regulated commercial banks to determine performance.

Introducing interviews to senior managers in Kenyan commercial banks was also used as a data source with the aim of providing insights on their role in providing support for innovation. Triangulation provided meaningful insights into the association between the inquiry approach and the phenomena in the study with an aim of illuminating significance. Triangulating qualitative and quantitative data also provided comparative analysis on the contribution of each data source; thereby, providing areas of convergence and increasing confidence in the study (Patton, 2015).

The seemingly diverse results, different points of view from various countries, industries and authors mainly result from a lack of an all-inclusive analysis of different leadership styles and performance. The study planned to take a different approach from previous studies and integrate several leadership styles and their influence on several indicators of bank performance. Profitability was the primary focus in the majority of leadership style and performance studies carried out mostly in established and budding markets, leaving a dearth of literature for the African continent and Kenya in particular. The study aimed to tackle the gap in literature which also considered how innovation mediates the association between leadership style and performance.

The current study sought to address gaps in identifying the leadership styles that are applied in the banking industry in Kenya and bridging methodological approaches to the studies highlighted which mainly focused on quantitative or qualitative approaches by triangulating the methods and data sources from leaders across different levels of leadership and their followers. An empirical review of literature exhibits mixed results in the relationship between leadership style and performance. This section provides a summary of research gaps revealed by the studies reviewed through exploring the association among leadership style, innovation, and performance.

Table 1
Summary of literature review

	Study Title	Findings	Identified Gaps	Focus of the current study
Nandasinghe (2020)	Leadership and organization performance: A review on theoretical and empirical perspectives	The study found that leadership style is a strategic choice and not a personality. The leader must therefore practice situational leadership.	The study focused on the empirical review of literature to identify gaps between leadership and impact on organizational performance and therefore difficult to generalize in other sectors	The study included transformational and transactional leadership. It also utilized behavioral leadership theory.
Novitasari et al. (2021).	The role of leadership on innovation performance: Transactional versus transformational style.	Transactional and Transformational leadership have a positive impact on the innovative performance of lecturers and proposes a model for the improvement of leadership practices in universities. Transformational leader has twice as much effect.	The study focused on transformational and transactional leadership- and undertaken in Indonesian culture only who are more open to transactional style study can be replicated in other cultures. The study used quantitative studies only in the academic sector.	The study used considered transformational, transactional leadership and innovation
Xie et al. (2018).	Leadership style and innovation atmosphere in enterprises: An empirical study.	Transformational leadership is more beneficial in building an innovative atmosphere than transactional leadership.	The study focused on Chinese enterprises. The study was built in individual self-report questionnaires and therefore the measurement results are prone to subjectivity due to psychological factors. Call for future research to adopt objective approach so that the study findings are effective and applicable. The study also did not distinguish team types as there was difficulty in sampling.	The current study in addition to transformational leadership and transactional considered the effect on innovation.

Ojokuku and Sajuyigbe (2013).	Impact of Leadership Style on Organizational Performance: A Case Study of Nigerian Banks.	A positive and negative correlation between leadership style dimensions and performance. Charismatic, transactional, and bureaucratic have a negative effect, Transformational, autocratic and democratic styles have positive effect on performance. When Leadership styles are jointly considered, they predict performance and account for 23% variance of performance	Research only sampled management teams and did not consider followers. Case study design used mostly to provide in depth analysis in qualitative studies which is lacking in the quantitative study presented.	The study in addition to transactional and transformational leadership styles also focused on other leadership styles and their combined effect on performance. The study was undertaken in Nigeria which is closer to the Kenyan context
Sarwar al. (2023).	Authentic leadership perceived organizational support, and psychological capital: Implications for job performance in the education sector.	AL positively influences employee performance directly or indirectly using psychological capital.	The study was conducted in one setting- China(Can be replicated in other culturally diverse settings). Use of survey- only quantitative methods (Future studies can triangulate the methods using research studies and longitudinal designs). Only followers sampled hence representing only their views.	The current study focused on Authentic leadership and performance.
Muigai & Gitau (2018).	Effect of innovation strategies on financial performance of the banking industry in Kenya	Product and organizational innovation strategies positively and significantly affect financial performance of firms in the banking industry in Kenya.	Use of small sample affecting generalizability of results. Study was a survey- quantitative methods (Future studies can triangulate the methods using research studies and longitudinal designs).	The study was based in the Kenyan banking sector and focused on innovation strategies and financial performance.
Rehman et al. (2019)	Mediating effect of innovative culture and organizational learning between leadership styles at third-order and organizational performance in Malaysian SMEs	Leadership style has a significant influence on organizational learning, innovative culture and organizational performance	Study focused on SMEs in Malaysia and cannot be generalized to the entire world. The study utilized quantitative methods hence lacking indepth	The current study focused on leadership style, innovation and organizational performance.

			meaning by use of qualitative methods	
Ridderhoff (2013).	The Influence of Authentic Leadership on team performance: Research in a Military Setting	The study found that Authentic leadership improves team performance especially in stressful situations	The study was conducted in a military setting in Netherlands and the findings could therefore not be applicable to commercial banks in Kenya. Qualitative study which does not provide the researcher with conclusive results due to lack of statistical strength but gives better understanding of the phenomenon. Only 19 responses sampled of military leaders not including followers which can be used in future research to improve validity of results A mixed method approach can be used in the longitudinal study to improve reliability and validity.	The current study considered authentic leadership and performance
Choudhary et al**.** (2013).	Impact of Transformational and Servant Leadership on Organizational Performance: A Comparative Analysis.	The study found that TL has more impact on organizational learning than SL and organizational learning mediates their relationship with organizational performance	The study undertook a limited sample size and cultural context. Lack of extension to check how servant and transformational leadership affect innovation, and behavior of followers. Lack of mixed method research to gain in-depth data from line managers. Only line managers and top executives engaged-followers could have been incorporated.	The study was conducted among private sector respondents in hotel, telecommunication, and banking sector
Yıldız et al. (2014).	The Effect of Leadership and Innovativeness on Business Performance.	Findings from the study revealed that Innovativeness, transformational and	The study was conducted on workers in service (event and communication agents) and	The study considered leadership, innovation and performance.

		transactional leadership have higher effects on business performance	industry (textile manufacturing) sector in Turkey and therefore not applicable to commercial banks in Kenya. Lack of mixed method research to gain indepth data from line managers. Use of quantitative methods only explanatory.	
Zhou et al**.** (2014).	Mediating Role of Employee Emotions in the Relationship Between Authentic Leadership and Employee Innovation.	The study found that there was a positive relationship between authentic leadership and innovation mediated by employee emotions	The study was conducted in the manufacturing industry in China and used samples from only followers. The survey used was strictly controlled- self reported surveys may be viewed as biased by common method variance	Study variables considered authentic leadership and innovation
Gachingiri (2015).	Effect of leadership style on organizational performance: A case study of the United Nations Environment Programme (UNEP), Kenya.	36.59% of respondents practiced transformational leadership. 34. 15% practiced charismatic leadership and 29.27% democratic leadership. 82.93% indicated that management had no elaborate means of making employees work together towards a common task. Transformational leadership was found to be more effective as it focuses on development of staff and their needs	Context was limited to the United Nations Environmental Programme and so not possible to explain the same phenomenon in banks. The sample size was also small hence limiting the possibility of generalization of data across industries and sectors. 63.2% of the variance in organizational performance was not accounted for by study variables therefore inferring that there were other extraneous factors affecting performance not considered in the study. It is therefore prudent to introduce intervening variables to come up with more robust findings	The study was undertaken in the Kenyan context and considered leadership style and performance
Tawaha (2016).	The Impact of Leadership Styles on Enhancing the Financial Performance through	Strong impact of LS and strategic alignment on financial performance.	Studies undertaken in Iran therefore may not be applicable in different cultural, economic,	The current study explored leadership style and financial performance. Call for future

	the Strategic Alignment in the Jordanian Insurance Companies	Strategic alignment variable has a positive impact on financial performance. Leadership styles however have no impact on financial performance through strategic alignment	and environmental conditions in Kenya. Use of other data collection techniques such as interviews and focus groups to provide insight and in-depth investigation into the effect of TL on creativity and innovation	studies on the effect of both transformational and transactional L/S to find out which is more effective in spurring employees' creativity and innovation.
Nazim et al. (2017).	Parametric Analysis of Leadership Styles on Organizational Performance and the Mediating Role of Organizational Innovativeness.	Results from the study shows there is a positive and significant relationship between transformational leadership and organizational performance	Study undertaken in the pharmaceutical industry in Pakistan which may not be generalized in the Kenyan banking industry. Secondly convenient sampling used which may result in an inappropriate sampling frame and introduce a biased representation of the universe- personal bias	In addition to using leadership style, performance and innovativeness, correlation analysis was used. The study undertaken in Pakistan which has similar economic conditions as Kenya
Mulonzi et al. (2017).	Effect of Leadership Style on Growth of Commercial Banks in Mombasa County.	The study found that leadership style major determinant of growth of commercial banks	Limited in scope- Only targeted one county in Kenya and did not have visibility of senior management role as only regional, branch managers and branch staff sampled. Indicators of growth- increased profits (strong financial base), increased branch network and more customers. The study tested leadership style behaviors and not specific leadership styles- autocratic, democratic, transformational, transactional	The current study was conducted among Kenyan banks

Sanda and Arthur (2017).	Relational impact of authentic and transactional leadership styles on employee creativity: The role of work-related flow and climate for innovation.	Transactional and authentic leadership have a positive impact on employee creativity	Sample collected from a single sub sector- Telecommunication of Ghanaian economy hence cannot be generalized	The study used creativity as a dependent variable rather than a mediating variable. It was carried out in Ghana which is in the African continent.
Liu et al. (2018).	The impact of Transformational and Authentic leadership on innovation in higher education: The contingent role of knowledge sharing.	Transformational leadership and knowledge sharing have a positive impact on innovativeness, but Authentic leadership has no support for innovativeness in higher education institutions in Jordan.	This study was undertaken among educational institutions in Jordan and the findings cannot therefore be applicable to commercial banks in Kenya	The study used transformational and authentic leadership as independent variables in a developing nation
Khajeh (2018).	Impact of Leadership Style on Organizational Performance.	Charismatic, bureaucratic, and transactional leadership have a negative impact on employees as they don't provide freedom and opportunities to employees. Democratic, transformational, and autocratic had a positive impact on performance.	The study was conducted the study in 20 randomly selected organizations in the United Arab Emirates made use of quantitative data only which reduced the scope and applicability of the research	The study included other leadership styles such as charismatic, bureaucratic, democratic and autocratic.
Ribeiro et al. (2018).	Authentic leadership and performance: the mediating role of employees' affective commitment.	There is a positive relationship between AL and performance and mediated by affective commitment.	Use of convenience sampling which limits the generalizability of results especially when online surveys are used as important respondents can be left out. Future studies to collect data at different points in time or via multiple source methods	The study measured authentic leadership against performance

Source: Author (2024)

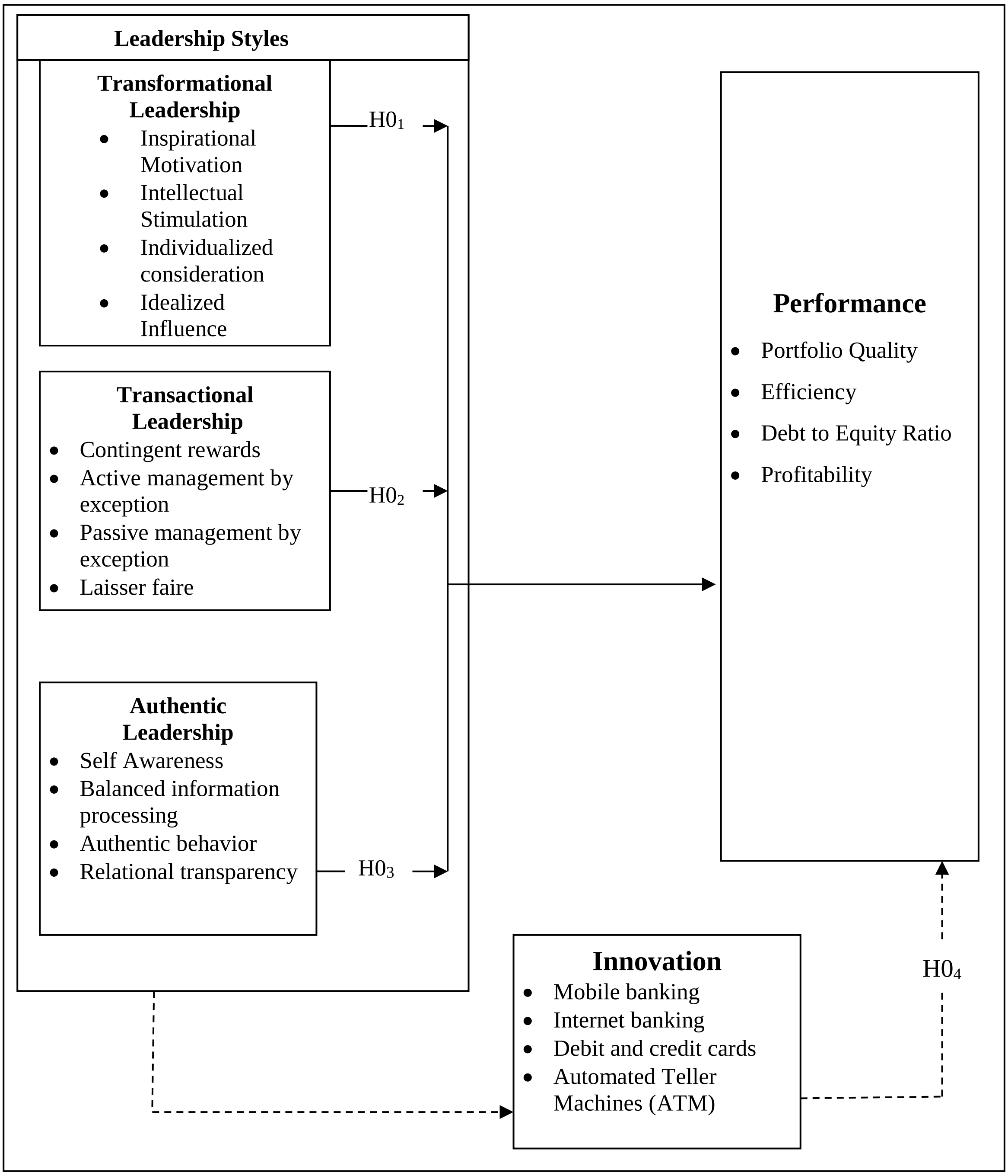
Conceptual Framework

A conceptual framework is a diagrammatical illustration of the interrelationships among study variables (Roberts, 2010). It is a research tool that explains the main concepts, variables and constructs and their relationships under study either in a graphical or narrative way (Miles & Huberman, 1994).

The conceptual framework for the study represented the interrelationship between leadership style, innovation, and performance of commercial banks in Kenya. It is represented in figure 1 below and conceptualizes that the leadership style applied by the leaders (Transformational, Transactional and Authentic) influences the level of innovation which also has an effect on financial performance. This relationship is held constant by various control variables namely, bank size, bank age and bank ownership.

Figure 1

Conceptual Framework



Source: Researcher (2024)

From the conceptual framework above, leadership style is the independent variable which was operationalized with the use of the following indicators: transactional leadership, transformational leadership, and authentic leadership. Performance is the dependent variable and is operationalized through the indicators: portfolio quality, efficiency, debt to equity ratio and profitability. The construct of innovation is the mediating variable operationalized through the dimensions: mobile banking, internet banking, ATMs and debit and credit cards. The various innovations deployed by the leadership of the commercial banks who support creativity in their employees lead to sustained levels of superior performance even in times of turbulence. The bank characteristics operationalized using age, size and ownership is the control variable. Since the bank characteristics may affect the role of leadership styles in the bank in diverse ways, the study standardized the variables across all the banks such that it was measured as a control variable. The age of the bank refers to the number of years the commercial bank has been in operation while the size of the bank is as prescribed by the central bank as large, medium, and small. Bank ownership refers to either the bank being public or private owned entities.

The Baron and Kenny (1986) model used to test mediation involved two paths to the dependent variable- performance. The first regression model involved leadership style predicting performance. Leadership style predicting innovation was the second regression model, while leadership style and innovation predicting performance formed the third regression model. Complete mediation was to be present when leadership style no longer influences performance after innovation has been controlled and the following conditions are met; leadership style is shown to significantly influence performance in the first regression model, leadership style is shown to significantly influence innovation in the second regression equation and finally innovation must significantly influence performance in the third equation where both leadership style and innovation are used as the predictors. Partial mediation occurs when leadership style's influence on performance is reduced after innovation is controlled. The research expected that there would be partial mediation arising from innovation in relating leadership style to bank performance.

Chapter Three: Research Methodology

Introduction

The methodology that was utilized in answering the research hypothesis is the focus of this chapter. The philosophy and design of the research, target population, sampling procedure, methods of data collection and analysis are also discussed. Lastly, the chapter provides the ethical issues.

Research Philosophy

A research philosophy is a framework guiding a researcher in conducting a study based on ideas about reality and the nature of knowledge (Collis & Hussey, 2014). It delves into ways of developing knowledge and its nature in each study field. The philosophy adopted by the researcher consists of the assumptions about their worldview which underpin the plan of the research and methods adopted (Saunders et al., 2009). Mkansi and Acheampong (2012) posit that there exist paradigm wars among proponents of research philosophies with major classifications falling under ontology, epistemology and axiology. Deliberations on epistemology submit to the question of what knowledge ought to be considered as good enough in each field under study (Bryman, 2016; Saunders et al., 2009) and it focuses on how the researcher relates with the knowledge to be gained (Guba & Lincoln, 1994). Ontology, in contrast, deals with the essence of social entities or realties which questions the assumptions that the researcher has about their worldview (Bryman, 2016; Saunders et al., 2009). It deals with different views on reality and thereby influences the way the researcher constructs knowledge (Mugenda & Mugenda, 2013).

Under epistemological considerations, there exists two key study viewpoints in natural sciences known as positivism and interpretivism. Positivism promotes the utilization of natural sciences methods in social phenomena studies where theory is used to generate testable hypothesis, and knowledge is arrived at by gathering of facts (Bryman, 2016). Highly structured methodology may be further utilized by scholars to replicate the studies. In contrast, interpretivism advocates that scholars appreciate dissimilarities among people as social actors according to the meanings they give to the different roles they play (Saunders et al., 2009). The researcher therefore needs to take hold of the subjective connotation of social action to embrace a plan that considers varied distinctions that exist among people and objects (Bryman, 2016).

The current study consequently applied the epistemological position of pragmatism because it was mainly conducted on human behavior which is the leadership styles applied in the commercial banks in Kenya. Pragmatism is a world view that provides research methods that are deemed to be most appropriate depending on the phenomena under study. The approaches that are applied are more pluralistic and practical because they allow for a combination of methods which inform the behavior and beliefs of the participants and the consequences arising as a result of the behaviors (Kivunja & Kuyini, 2017; Saunders et al., 2009). As the study took place in a context where leaders who are humans are involved, this means that it may not be possible to provide explanations of the causal nature as reality is not perfect and therefore leave room for observations that supplement the formulation of hypotheses that was tested (Kivunja & Kuyini, 2017). This was conducted through in-depth interviews with the senior executives in the banking sector to determine why and how leadership styles relate to performance and innovation. The senior executives brought in rich broad history, experience, and expertise on behavior of the study that quantitative study alone could not capture. The quantitative data collected from the study was analyzed using statistical procedures (SPSS Version 23.0) while qualitative analysis involved representation of meaning from the non-standardized data and words and involves categorizing it using conceptualization. This was done by conceptual content analysis using Atlas.ti 7 software.

The study objectives are meant to determine the effect of leadership style on performance of commercial banks in Kenya. The research results were based on pursuing if the relationship exists and not how it exists and it was also unbiased of the researcher's individual opinion. Data was collected via questionnaire and both descriptive and inferential analysis was applied in testing which is in tandem with the principle of objectivity in positivism. Additionally, in-depth interviews introduced the aspect of mixed methods which is in line with post positivism that posits that truth is probable and not necessarily absolute (Kivunja & Kuyini, 2017).

Research Design

Saunders et al. (2009) describes the design in research as the researcher's broad plan consisting of frameworks for collection and analyzing of data and additionally outlines how a researcher plans to go about responding to their research question (Bryman, 2016). Sekaran and Bougie (2016) describe a research design as a blueprint for collecting, measuring, and analyzing data in a bid to reply to research questions. This must include clear objectives that result from the research question in addition to sources of data collection, limitations and justifications based on the research objectives and are consistent with the research philosophy. Ethical issues are also addressed. It can also be defined as arranging collection and analysis of data conditions in a way that intends to merge significance and economy in the research purpose and in the methods applied. All in all, the research design should facilitate smooth sailing of various research operations in an efficient manner which will yield maximum outcomes with minimum outlay of resources (Kothai & Garg, 2014). The three main research designs are explanatory, descriptive and exploratory (Saunders et al., 2009).

Due to the complex and dynamic environment business find themselves operating in today, many researchers have found the need to combine methods in scientific research which provides a lens to know, interpret and transform reality. It is therefore pragmatic to select mixed method research (Timans et al., 2019) especially in the twentieth century due to growing research in the areas of management, education, health, social and behavioral sciences (Creswell, 2018). Mixed methods research involves the integration of both quantitative and qualitative approaches as both have strengths to exploit and weaknesses that can be compensated for (Muñoz-Pascual et al., 2019). The result would produce more accurate results in management research and provide a broader perspective to social phenomena, enrich the results, and obtain a comprehensive understanding of the study under examination (Bracio & Szarucki, 2020). Integration of the methods can occur at all stages from development of research questions, data collection, analysis, and integration (Timans et al., 2019). Since qualitative and quantitative methods are not incompatible, combining them is relevant when ascertaining causes and conditions that lead to sustainable performance (Muñoz-Pascual et al., 2019). Mixed methods design has had extensive influence on leadership, innovation, and performance studies. For example, Jensen et al. (2020) adopted this design to explore the relationship between CEO transformational leadership and firm performance beginning with quantitative analysis followed by qualitative analysis, while Muñoz-Pascual et al. (2019) adopted a triangulation design to study the triple bottom line on sustainable product innovation performance in SMEs.

The study adopted a convergent parallel mixed research design for the purposes of data collection where the researcher simultaneously collected quantitative and qualitative data and analysis was separately done before merging the results (Demir & Pismek, 2018). Descriptive research is used to depict a precise outline of persons, events or circumstances (Saunders et al., 2009) and this aided the researcher to define a distribution of outcomes or computations using few indices. Descriptive data report things as they are in terms of likely conduct, approaches, values and characteristics (Mugenda & Mugenda, 2013). This design was suitable as the data and characteristics of the phenomena under study which is leadership style and performance was aptly described by the researcher thereby attaining the desired research objectives. The descriptive design for the quantitative data was used as a forerunner to explanatory design for qualitative data to have a clear depiction of the phenomenon prior to data collection (Saunders et al., 2009).

The study was a cross-sectional survey to be undertaken in the banking sector as data was collected by way of questionnaire and structured interviews once. This was from several banks at one point in time to collect data that can be quantified that is connected to the three variables associated with the study (Bryman, 2016). This enabled the researcher find out the prevalence of the phenomenon by taking a cross- section of the population (Kumar, 2011). Semi-structured interviews within the cross-sectional design were used at an exploratory stage to determine the first three objectives on the leadership styles, innovation levels and performance in the banking sector introducing a mixed method in data collection using the interviews and questionnaires. Questionnaires collected the descriptive and explanatory data. Thematic analysis was used to identify themes or interesting patterns and make sense of the data using the

Braun and Clarke (2006) six step framework while moving forward and back between them. Step one involves getting familiar with the data while in step two initial codes were generated paving way to searching for themes in step three. This paved way for reviewing and defining themes which forms step four and five before step six which is having a write-up of the findings (Maguire& Delahunt, 2017).

Explanatory or causal studies build on descriptive research (Sekaran & Bougie, 2016) and establish causal relationships between variables where correlation tests are applied on the data to obtain a more lucid outlook of the relationship (Saunders et al., 2009). This was applied in the study to ascertain the degree and nature of cause-and-effect relationship among leadership, innovation and performance. The data collected was subjected to correlation statistical tests (Saunders et al., 2009) to detect patterns of association or relationship. The design was suitable to establish the leadership style effects on performance of Kenyan banks.

Empirical Model

An empirical model is used to define relationships existing among variables under study that should be verifiable by way of empirical research. The study conducted multiple linear regression analysis to determine the relationship among study variables. This is an appropriate model because performance being the dependent variable is a single, metric and continuous variable (Kothari & Garg, 2014) additionally; the hypotheses to be tested take two forms; direct and mediated.

Empirical Model for Direct Relationship

The hypotheses tested the relationships among the three independent variables-transformational, transactional, and authentic leadership styles and the dependable variable of performance. The multiple linear regression model below was presented to establish the relationship between financial performance and the three independent study variables.

$PER_{F} = \beta_0+\beta_1 TL+\beta_2 TX+\beta_3 AL+ \varepsilon$……………………………………………3.1

Where: -

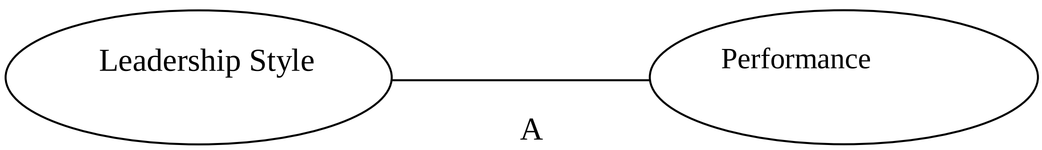
PER_F	= Performance
β_0	= Constant
β_1, β_2&β_3 variables	= Beta coefficients for the independent
TL	= Transformational Leadership
TX	= Transactional Leadership
AL	= Authentic Leadership
ε	= Error Term

Empirical Model for the Mediated Relationship

Baron and Kenny (1986) proposed a four-step technique to test the mediation effect. In this study the mediating hypothesis tested whether the concept of innovation serves as an intervening variable in the relationship between leadership style and performance among commercial banks in Kenya. The research adopted the criteria propagated by Baron and Kenny (1986) to test for the effect of the mediator. The relationship is tested at several steps as illustrated in the diagrams in 2 and 3.

Figure 2

Direct Relationship between Leadership Style and Performance

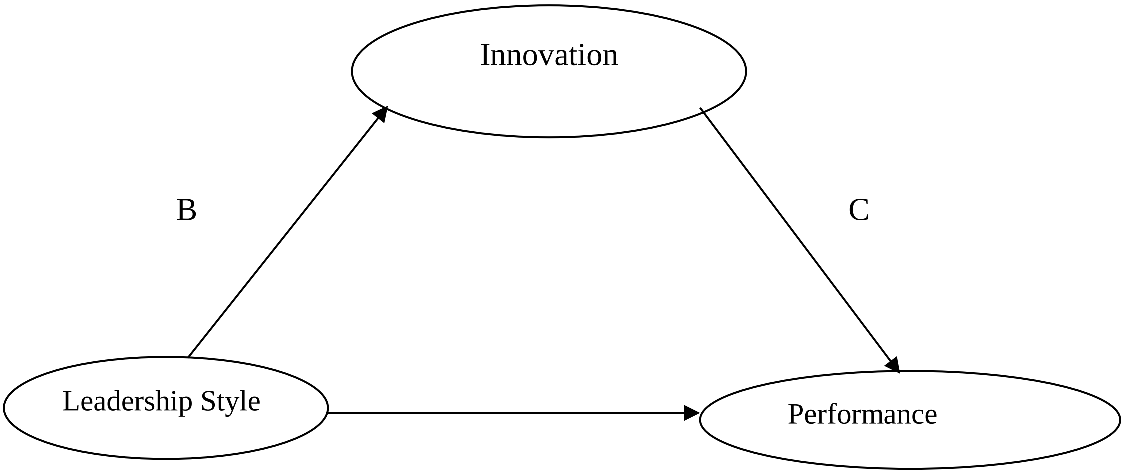


The first step is to test the direct relationship between leadership style and performance (path A) as shown in Figure 2.

The second step involved testing path B which is Leadership style and innovation, third step involved testing path C while the fourth step involved testing path A as illustrated in Figure 3.

Figure 3

Mediating Effect of Innovation on the Relationship between Leadership Style and Performance



Step 1: Regress Performance on Leadership style and note the significance of the relationship.

$PER_{F} = \beta_0+\beta_1 L_S+ \varepsilon$……………………………………………………………Model 3.2

Step 2: Regress Innovation on Leadership style and note the significance of the relationship.

$Inov = \beta_0+\beta_2 L_S+ \varepsilon$………………………………………………………………… Model 3.3

Step 3: Regress Performance on Innovation and note the significance.

$PER_{F} = \beta_0+\beta_3\ Inov + \varepsilon$……………………………………………………………Model 3.4

Step 4: Regress Performance on leadership style and innovation and note the significance.

$PER_F = \beta_0 + \beta_4 L_S + \beta_5$ Inov + ε……………………………………………………Model 3.5

Where:

PER_F	= Composite index for Financial Performance
β_0	= Constant
β_1, β_2, β_3, β_4 & β_5	= Beta coefficients
L_S	= Composite index for Leadership Style
Inov	= Composite index for Innovation
ε	= Error Term

The decision criteria for the mediation effect is summarized in Table 2

Table 2

Decision criteria for Mediation

Model	**Significance of the beta coefficient**		**Conclusion**
Model 3.2	β_1; ($p>0.05$)		There is no conclusion of mediated relationship
Model 3.3	β_2; ($p\leq0.05$)		There is a mediated relationship
Model 3.4	β_3; ($p\leq0.05$)		There is a mediated relationship
Model 3.5	β_4; ($p\leq0.05$)	β_5; ($p\leq0.05$)	There is partial mediation
Model 3.5	β_5; ($p>0.05$)	β_5; ($p\leq0.05$)	There is full mediation

Source: Researcher (2024)

Target Population

Population is also referred to as the universe and it is defined as an identified and specified group of persons, items or events that possess a common attribute that is observable and the researcher intends to investigate (Kothari & Garg 2014; Mugenda

& Mugenda, 2013). The study's population comprised all the 39 Kenyan commercial banks as at 31st December, 2021 with headquarters in Nairobi County (CBK, 2021). The unit of analysis in the study was the Kenyan commercial banks whereas the unit of observation was the managers at senior and middle management levels. The study chose this sector of the Kenyan service sector for various reasons; firstly, the set of variables being investigated namely leadership style, innovation and performance are fundamental in the industry which has a central role in the economy of any country. Secondly, the banking sector has in the recent past been affected by digital disruption hence forcing banks to innovate in order to reduce operating expenses and improve efficiency especially under the interest rate capping regime.

Table 3

Population Distribution Table

Peer Group	Total No.	Percentage
Large	9	23.0
Medium	9	23.0
Small	21	54.0
Total	**39**	**100**

Source: Banking Sector Supervision Report (2021)

Sampling Size and Sampling Procedures

Kothari and Garg (2014) define a sampling design as a certain plan used to obtain a sample from a population. The sampling procedures, sampling unit, sampling frame and sample size that was adopted in a study are also identified in the design. A sampling frame consists of all the units in the population from where the sample was selected (Bryman, 2016). The sampling frame for the study comprised all licensed Kenyan commercial banks as listed in the Central Bank's directory of licensed commercial banks and mortgage institutions. Mugenda & Mugenda (2013) posits that a sample size between 10-30 per cent is representative of the population while 50 percent would be advantageous.

To justify the sampling design, the study adopted the bank as the unit of analysis while leadership at various levels of hierarchy in the bank was the unit of observation. The middle managers are both leaders and followers of the senior managers. The study used multistage sampling procedure which was applied at 3 stages.

Stage 1: Selection of banks from which respondents were drawn using the census method to study all the 39 commercial banks.

Stage 2: Selection of the level of leadership in the bank for investigation using purposive sampling. The distribution of questionnaires was based on the length of service of senior and middle level managers depending on the availability of information and readiness to disclose it as well as their investment or uptake of innovative solutions evident from their existing product and services. The respondents assessed their immediate supervisors.

Stage 3: Determination of sample size from the unit of observation which are the senior and middle level managers in the commercial banks to obtain a sample size of 370 managers; 111 senior managers and 259 middle managers. This was arrived at by calculating the target population of 10,396 senior and middle managers with 95% confidence level and a margin of error of 0.05 as per adopted sample size table in Appendix IV.

Stage 4: Selection of respondents using proportionate stratified sampling technique in the different banking peer group. Proportionate sampling is a probability sampling method where different strata are identified and the total element from each stratum is comparative to the relative sum of elements in each stratum

Table 4

Sampling Frame Based on Proportionate Stratified Sampling

Tier	No. of Banks	Total No. of Managers		Sample Size	
		Senior	Middle	Senior	Middle
Large	9	1,744	4,027	62	144
Medium	9	630	1,436	22	52
Small	21	767	1,792	27	63
Total	39	3,141	7,255	111	259

Adopted from banking Sector Supervision Report (2021)

Data Collection Instrument

A questionnaire was adopted as a primary data collection tool for the study. Kothari and Garg (2014) and Mugenda and Mugenda (2013) define a questionnaire as a data collection document containing several definite and orderly questions printed out on a form. It is the most suitable instrument because the researcher can guarantee source confidentiality while quickly collecting large amounts of consistent information (Sekaran, 2003). The questionnaire was adapted from the Multifactor Leadership Questionnaire (MLQ) to assess a range of transformational and transactional leadership scales while the Authentic Leadership Questionnaire (ALQ) assessed Authentic Leadership scales. The MLQ was developed and validated to identify the leadership characteristics in both the leader's and follower's eyes while highlighting where possible development is required (Bass & Avolio, 2004). The ALQ was a tried and developed measure of Authentic Leadership characteristics and both tools are tried and tested and permission from copyright owners mindgarden.com was sought (Walumbwa et al., 2008).

The questionnaire contained an in-depth interview guide which was adopted in the research. The tool concurrently collected qualitative and quantitative data; hence, was semi-structured and contained both open ended and close ended questions. In the first phase, the questionnaire was administered to the respondents using closed ended questions as they guided the responses with the alternative answers provided, while open ended questions permitted a greater depth of response as each respondent could freely express their own views (Mugenda & Mugenda, 2013). It was also structured into two sections that enabled the respondents to easily capture the data. The first section gathered data on the respondent's demographics, while the second section focused on data collection in relation to the study variables as shown in Appendix I. The second phase, which ran concurrently involved interviewing the previously contacted senior leadership. This enabled the researcher to gain in-depth data using open ended questions from the respondents in the qualitative phase to understand the variables better.

According to Kothari and Garg (2014), secondary data is previously gathered and analyzed data by others for various unforeseen purposes; thereby, making it readily accessible. Secondary data from the sampled banks was used in the study to determine the level of performance of commercial banks in Kenya. This included portfolio quality, financial management and profitability. The use of secondary data was to validate the findings from primary data analysis which was collected using primary data. The use of primary and secondary data improved the coherence in interpretation and communication and practical validity of the study procedures.

Pre- Testing of Research Instrument

Pre- testing of the instrument was carried out on selected managers in Micro Finance Banks regulated by the Central Bank of Kenya to confirm that all the items are stated clearly and can be similarly interpreted by all respondents. The respondents who participated in the pre-testing were not part of the sample (Mugenda & Mugenda, 2014). The questionnaire pretesting was administered on the respondents via personal interviews to perceive their responses and viewpoints (Sekaran, 2003). The study pre-tested the interview guide and questionnaire on 3 listed microfinance banks through an online platform and generated a total of 20 responses which were coded and transferred to the statistical software for purposes of running preliminary analyses and measure the reliability of the instrument. Information gathered during the pre-testing was incorporated to revise the instrument before final administration which was tested in all aspects including content of the question, its wording, order, structure, and outline as well as the difficulty and instruction of the questions.

Validity of the Research Instrument

Creswell (2018) defines the research instrument validity as its ability to bring out meaningful and useful inferences out of the scores based on the study results. Validity points to the quality and integrity of solutions that are drawn from the data and encompasses measurement validity which refers to whether concept's measure, mirrors the concept it is intended to measure; internal validity which relates to causality between the two or more variables under study and external validity which has to do with generalizability of study results (Bryman, 2016). The study utilized face, content and construct validity to determine its validity by selecting items which are viewed to prove a point which can be subjective depending on the observer's judgment. Content validity is the measure of the degree to which the collected data is relevant to the content of a particular concept (Mugenda & Mugenda, 2013). The researcher engaged peers and experts in the research field to ascertain the questionnaire's face and content validity. Additionally, the researcher was also interested in ascertaining whether the instrument taps the concepts as theorized to ascertain the construct validity. This was used to confirm how well obtained results arising from measures used matched the theories from the designed test (Sekaran & Bougie, 2016) and was ascertained by the deduced hypotheses from the theories that relate to the concepts (Bryman, 2016).

Validity in qualitative research is ensured by credibility and trustworthiness. Credibility checks how findings are congruent with reality and measures taken to ensure the findings are factual and the views of participants are well represented. Trustworthiness involves creating a conducive environment where participants feel free to share their honest view. This ensures that there is transferability, dependability, and confirmability in ensuring that the responses from the interviews are as close as possible to reality (Stahl et al., 2019). In the current study, there was an assurance of validity by focusing on the current themes from the research questions and triangulation of data since both qualitative and quantitative data complement one another (Thomson, 2011).

Reliability of the Research Instrument

Reliability of the research instrument is the degree to which reliable and similar results are obtained after repeatedly testing the instrument (Bryman 2016; Mugenda & Mugenda, 2013). Cronbach alpha is used to determine the reliability coefficient of the research and the closer it is to 1 the higher the internal consistent reliability. A measure of 0.7 and above is ideal for a newly constructed instrument (Sekaran, 2003) which was adopted by the researcher.

Operationalization of Variables

Operationalization means finding indicators that can be measured, quantified and valid for both independent and dependent variables. Sekaran and Bougie (2016) posit that it is achieved by observing the behavioral dimensions or properties that is indicated by the concept before translating them into measurable and observable elements to develop an index for the concept. It first begins with defining the construct, then instrument; whereby, a response format, for instance, a Likert scale with endpoints anchored by "strongly disagree" and "strongly agree" is needed and finally assessing the reliability and validity of the measurement scale. All the variables were operationalized as detailed in table 5.

Table 5

Operationalization of Variables

Variable	Variable Type	Operationalization of the variable	Indicators	Measurement in the questionnaire	Source
Transformational Leadership	Independent	Leadership that is characterized by charismatic and affective facets of leadership where the leader taps on the follower's motives to reach the organization's common goals	It was measured in this research in terms of how the subordinate views the supervisor's leadership style in terms of; • Intellectual Stimulation • Inspiration motivation • Idealized influence • Individualized consideration	Appendix III Part 2 Q5&6	Avolio et al**. (**2004)
Transactional Leadership	Independent	Leadership that is based on exchange to motivate followers by use of rewards and benefits	It was measured in this research in terms of how the subordinate views the supervisor's leadership style in terms of; • Contingent rewards • Active management by exception • Passive management by exception	Appendix III Part 2 Q 5&6	Avolio et al**. (**2004)
Authentic Leadership	Independent	Leadership that focuses the authenticity of the leaders and whether their leadership is real or genuine	It was measured in this research in terms of how the subordinate views the supervisor's leadership style in terms of; • Self-Awareness • Balanced information processing • Authentic behavior • Relational transparency	Appendix III Part 2 Q 5&6	Walumbwa et al. (2008).
Innovation	Mediating	Development of a specific product, service, idea,	• Mobile banking • Internet banking	Appendix III Part 3 Q7&8	

		environment, or process with the aim to extract value or utility and result in profit for the innovator	• Debit and credit cards • Automated Teller Machines	Appendix III Part 4 Q9&10
Financial Performance	Dependent	The actual output or outcome that is produced by an organization because of planned or intended activity	• Profitability • Portfolio Quality • Financial management • Efficiency and productivity	Appendix III Part 5 Q11

Source: Researcher (2024)

Data Analysis Plan

When data is initially collected from the field in a raw form, it is difficult to interpret as it must be cleaned, coded, keyed into a computer, and analyzed (Mugenda & Mugenda, 2003). Data analysis involves ordering, structuring, and bringing meaning to the mass of collected data (Bryman, 2016) in a logical and organized fashion. Quantitative data is usually analyzed using statistical procedures while qualitative analysis involves representation of meaning from the non-standardized data and words and involves categorizing it using conceptualization (Saunders, 2009).

Quantitative Data Analysis

The quantitative data was analyzed using Statistical Package for Social Sciences (SPSS Version 23.0), while qualitative data was analyzed by use of Atlas.ti software. The reverted questionnaires were referenced, and contents coded for ease of entry of data. It was thereafter cross-checked for errors after cleaning and descriptive statistics computed and deduced with all quantitative variables with projected results by way of graphs and tables. Descriptive statistics allow the researcher to define scores distributions or measurements using few indicators in a meaningful manner (Mugenda & Mugenda, 2013). Inferences were then drawn by use of Pearson correlation coefficient and multiple regression analysis.

Coefficient of determination (R^2) was utilized to test the significance of the model and its application measured the degree to which the variation of performance is expounded by the variation in leadership style. F- Statistic calculated at 95% confidence level tested the total significance of the model. Testing of Hypothesis was done using p-values which assist in making decisions on the null hypothesis and gives further insights into the decision's strength. The significance level of 0.05 is mostly applied in research in business and social disciplines (Mugenda & Mugenda, 2003) and was adopted in the study.

Test of Hypotheses

To test the hypotheses, this study adopted empirical models presented in table 6 in the order of the research objectives.

Table 6

Test of Hypotheses

Hypotheses	Statistical test	Interpretation
1.Transformational Leadership has no significant effect on performance of commercial banks in Kenya	Multiple linear regression of the form PERF = $\beta_0+\beta_1TL+\beta_2TXn+\beta_3AL+\varepsilon$	Note the values of r^2, β_1 and F for the regression model If $p < 0.05$, Reject H01 If $p > 0.05$, Accept H01
2.Transactional Leadership has no significant effect on performance of commercial banks in Kenya		Note the values of r^2, β_1 and F for the regression model If $p < 0.05$, Reject H01 If $p > 0.05$, Accept H01
3.Authentic Leadership has no significant effect on performance of commercial banks in Kenya		Note the values of r^2, β_1 and F for the regression model If $p < 0.05$, Reject H01 If $p > 0.05$, Accept H01
4. Innovation has no significant mediating effect on the relationship between leadership style and performance of commercial banks in Kenya	Step 1: PERF = $\beta_0+\beta_1LS+\varepsilon$ Step 2: INn = $\beta_0+\beta_2LS+\varepsilon$ Step 3: PERF = $\beta_0+\beta_3INn+\varepsilon$ Step 4: PERF = $\beta_0+\beta_4LS+\beta 5INn+\varepsilon$	Note the values of r^2, β_1 and F for the regression in step 1. If β_1 is significant, there is a relationship to be mediated. Note the values of r^2, β_1 and F for the regression in step 2. If β_2 is significant, then LS affects Inn Note the values of r^2, β_1 and F for the regression in step 3. If β_3 is significant, then INn there is mediated relationship Note the values of r^2, β_1 and F for the regression in step 4. after controlling for INn Note the change in the beta coefficient for Leadership style ($\beta_4-\beta 1 <0$) If β_1 and either β_2 or β_3 is also significant, then some mediation is supported If β_4 is no longer significant after controlling for INn, then full mediation is supported If β_4 is significant after controlling for INn, then partial mediation is supported

Source: Researcher (2024)

Qualitative Data Analysis

The open-ended questions yielded qualitative data which was analyzed using Atlas.ti 7 software where it was prearranged, organized, coded and analyzed according to themes, searched for meaning and interpreted with conclusions drawn on the sources of theories (Patton, 2015). The search for themes can be found in many approaches to qualitative data analysis such as Grounded Theory, Critical Discourse Analysis, Qualitative Content Analysis and Narrative Analysis (Bryman, 2016). Qualitative analysis is all about making sense of large amounts of data. There are several guidelines and principles that give direction; however, replication of the researcher's analytical thought process is almost impossible. In qualitative research, analysis depends on the insights, conceptual capabilities and integrity of the analyst. It is driven by the capacity to recognize patterns from the beginning to the end (Patton, 2015).

Qualitative analysis is inductive in the initial stages especially when developing a codebook for content analysis or trying to figure out the possible categories, patterns and themes. Inductive analysis is about discovering patterns, themes and categories in one's data and the findings emerge as the researcher interacts with the data; hence, he must be open to the data by being immersed in it (Patton, 2015). In thematic analysis, the researcher must construct an index of central themes and subthemes which are then represented in a matrix. They are recurring motifs in the text that are then applied to the data and emerge from thorough reading and rereading the transcripts of field notes (Bryman, 2016). Braun Maguire and Delahunt (2017) posits that the steps in thematic analysis which was adopted in the study as, becoming familiar with the data by reading and re-reading the transcripts, generating initial codes, searching for themes, reviewing the themes, defining themes and finally writing up the report.

Diagnostic Tests

Diagnostic tests were applied to test the assumptions of the multiple regression models and undertaken on data that was collected prior to actual analysis. These included normality, multicollinearity, adequate sample size, outliers, linearity and heteroskedasticity (Sekaran & Bougie, 2016).

Normality refers to the assumption that the collected data is distributed normally over the population which should be ascertained before commencing data analysis (Kothari & Garg, 2014). The study ascertained this by drawing a histogram of the data collected to reveal a bell-shape curve which is ideal to determine normality and the P-value greater than 0.05 at 95% confidence level was adopted.

Multicollinearity tests are carried out when more than two independent variables in a multiple regression model have a high degree of correlation (Kothari & Garg, 2014; Sekaran & Bougie, 2016). If the results reveal a correlation between independent variables that is equal to 1 or -1 then there will be a severe case of multicollinearity. A correlation of 0.7 and above reveals the presence of a high correlation, where it is practical, the correlation coefficient lies between 1 and -1 (Sekaran & Bougie, 2016). Kothari and Garg (2014) posit that prediction for the dependent variable is possible even when there is multicollinearity, although the researcher must be careful to select the independent variables to estimate the dependent variable so that it can be reduced to lowest levels.

The assumption in regression analysis is that the error term's variance remains constant through observations, otherwise it is deemed to be heteroscedastic which makes the regression analysis not optimal (Kothari & Garg, 2014). This is because the same weight is given to all outcomes while outcomes with greater disturbance variance contain less data than those with slighter disturbance variance. The study assumed a constant error term; thereby, if $P \leq 0.05$, reject the null hypotheses and settle that the observations are heteroscedastic and if $P \geq 0.05$, fail to reject the null hypothesis implying that heteroscedasticity is not present.

Tests for independence was carried out to determine the statistical independence of the demographic results via the Chi-square test being a nonparametric test (Kothari & Garg, 2014) that is encountered when we deal with collections of values involving adding up squares with the assumption that if at most 20% of the cells produce the expected count of lower than 5 the ratio will likely be used. This decision on significance of test results was formed based on P-value at 95% confidence level.

Ethical Considerations

Ethical issues in research are concerned with confidentiality and privacy, anonymity, voluntary and informed consent of respondents, no physical and psychological harm to respondents including not using vulnerable and/ or special populations as research subjects. The researcher worked with only voluntary participation so as to purge or manage any ethical issues which can lead to introduction of response bias (Bryman, 2016). In addition, the researcher obtained permission to undertake the research from National Commission for Science Technology and Innovation (NACOSTI) and following the guidelines laid down by Pan African Christian University.

The researcher was watchful in ensuring that respondents were voluntarily involved in the study, while utilizing minimal time and resources to obtain data that is required. An informed consent form for signing was also shared with the participants to explain the essence of the study and details of their participation. A quantitative research method approach adopted ensured that the researcher was objective, reliable and independent. Clarification on the study's objectives to the respondents was first carried out and they were assured that the availed data was utilized for educational purposes only.

Chapter Summary

This chapter has elaborated the research philosophy, design and methods that was applied to conduct the study. A quantitative and qualitative study was conducted using the questionnaires that were administered. The methodology through which the data was collected and analyzed was described as well as presentation of ethical considerations.

CHAPTER FOUR: RESEARCH FINDINGS & DISCUSSION

Introduction

The current chapter presents the study findings, data analysis and discussions of the study findings. The study mainly investigated the mediating effect of innovation on the relationship between leadership style and performance of commercial banks in Kenya. Specifically, the study looked at the effect of transformational, transactional, and authentic leadership on the performance of commercial banks in Kenya, while assessing the mediating effect of innovation on the relationship between leadership style and performance. The primary data analyzed and presented in this chapter was organized into; response rate, demographic characteristics, reliability results, descriptive analysis, diagnostic tests and regression analysis and finally test of hypotheses. The research data was analyzed and interpreted based on the overall objectives of the study.

The data analysis was performed in stages using the SPSS (Version 23.0) software for the quantitative data. Stage one involved coding and entry into the software and data screening and cleaning was equally done. In this stage, the questionnaires were assessed for completeness to remove those incomplete or improperly filled from consideration for further analysis and all the returned questionnaires were found suitable for analysis. Stage two involved analysis of descriptive statistics while stage 3 performed diagnostic tests to ensure that the assumptions underlying multiple regression analysis are complied with in this stage. The last stage of quantitative data analysis was the inferential analysis that was performed using a series of multiple regression models to test the four hypotheses that guided the study. The inferential statistics were carried out to help the researcher test the nature of the relationships that exist between the various variables. This test helped to answer the research questions and hypotheses and inferential analysis helped to assess the strength of the effect of the independent variables on the dependent variable and the importance of each of the predictors to the relationship. Further, this analysis helped in making inferences that extend beyond the immediate data.

For qualitative data, the study purposively sampled 15 Managers (9 Senior Managers and 6 Middle Level Managers) with whom Key Informant Interviews were conducted. The Key Informant Interviews sought to shed light on study variables across the sampled commercial banks. The key informant interviews were audio recorded with the consent of the study participants. The audio records were then transcribed verbatim, and the final transcripts were coded using Atlas.ti 7 software for qualitative data analysis. Coding patterns were identified and were used to generate themes leading to thematic analysis of the qualitative data. The quality of the data was ensured through trustworthiness rigor and this quality was retained throughout the process of dealing with qualitative data. The qualitative data was presented thematically by use of illustrative and verbatim quotes that were compiled, analyzed and explanations given on how the quotes were chosen and labeled. Subsequently, the quotes expressed the research findings and helped illustrate the main themes that emerged from the study and demonstrate the reliability of the conclusions that were drawn from the data. The qualitative findings integrated into the discussion under descriptive statistics and test for hypothesis.

Themes from Qualitative Data

Table 7

Thematic Table from Qualitative data

Master Theme	Sub- Themes	Supporting Quotes
Adaptive and collaborative organizational Culture	Relationship oriented/ interactive organizational culture	*"It's an open-door policy. Managers seek the staff's opinion and also the staff feel free because they are included in decision making. However, this varies from branch to branch. But generally, managers listen to their staff."* (Mr. K – Manager KII) *"Our culture is about interaction with one another and the team members…So that culture of embracing the teamwork, communicating with people, interacting a lot, it, it gives people confidence and openness and builds positive attitude in the staff and promotes performance."* (Ms. L – Manager KII)
	Organizational culture that builds performance.	*"Organisational culture plays a key role in whether the environment in which you work is healthy ... Together we have always strived to achieve more."* (Mr. M – Manager KII) *"We always try to minimize the gaps. We make sure the relationship is good. Every morning, we make sure we assemble to pray and sing together... During these meetings we share ideas every week as we interact with everybody, even the people are giving us services like the cleaners. They may have noticed one or two things that you did not notice. And they share their observations during such interactions."* (Ms. P – Manager KII)
	Informal gatherings build interactive organizational culture.	*"Organizational leadership either motivates or discourages staff. It can make them comfortable or uncomfortable…If the leadership is good, it promotes initiative, and the staff are motivated by being appreciated and noticed. If the leadership is by example the staff are motivated to follow suit."* (Mr. X – Manager KII) *"The organizational leadership is visionary... The leaders openly make the vision clear to everyone working in the bank to ensure there's a common work culture."* (Ms. N – Manager KII)
	Organization culture creates a conducive working environment.	*"My leader clearly articulates the vision and what is expected of each party to be able to meet the overall vision of the company... His style of leadership lies in ensuring that the team works as one to achieve the overall mission and vision of the company as they assist one another."* (Mr. R – Manager KII)
	Organizational culture strongly influences visionary leadership.	

Structured and unstructured/ innovative approaches to problem solving	Leaders adopt a structured approach to problem solving.	*"Most of the times leadership takes a very clear and detailed step that solves the problem from the source to avoid repetition."* (Mr. F – Manager KII) *"Well, so when it comes to problem solving as a manager, I make sure that I include the staff... However, if it's a minor issue, then I may implement the solution myself and then guide the employees through the solution process."* (Mr. L – Manager KII) *"No one is perfect. Even those who have been trained, even people with PHD, professors, encounter problems, they make mistakes daily. How do we approach problems? We do it in different ways or use different methods..."* (Ms. R – Manager KII)
	Leaders adopt an innovative approach to problem solving	*"There are some problems which are a bit technical. That is where creativity comes in because if you have a problem which has persisted in an organization, you must find people to expand their thinking to come up with ways of solving that problem... So, you analyze the characteristics, the behaviors and the factors that led to the problem. Then you come up with the steps necessary to prevent the problem from arising again in future. That is what we call mitigation measures*." (Mr. G – Manager KII) *"First, I would define the problem by talking about it to my fellow colleagues or by observation, look more closely to the issue and find any relative information, analyse the problem with the team so that I can get multiple opinions then create a solution using the information I have gathered about the problem."* (Ms. X – Manager KII)
Leadership impacts organizational performance	Open and collaborative leadership impacts performance.	*"Initially there were some complex structures in the banking system where the people sitting in the managerial positions were never available. However, in my organization I have made sure that we from the Executive Management are able to interact with one another and even with our staff in the lowest job cadres... This has helped us a lot and has improved our performance as a bank."* (Mr. H – Manager KII)
	Transformational and collaborative leadership drives performance	*"I would categorize my leader as transformational leader. He motivates the staff and is well-articulated, he inspires team members to achieve defined goals and is also excellent in presenting and explaining strategic focus which has enhanced bank performance"* (Ms. W – Manager KII) *"Our leadership approach is very professional, and it has always allowed for the performance to improve...If you compare our previous performance before we adopted the new leadership style, you will notice that performance has really improved."* (Mr. J – Manager KII) *"In terms of performance, I will say there has been efficiency in serving our customers. The profit margin has also grown. I attribute all this to good governance and the leadership…"* (Ms. B – Manager KII)
Space for innovation in the banking sector	Leaders encourage adoption and uptake of innovation	*"Innovations and new ideas are highly encouraged and supported. We are effective in implementing changes that come with it…"* (Mr. D – Manager KII) *"Most of the time when a member comes up with an innovation, we try to engage with them… We use the information on the new ideas, and this has helped us achieve some good experiences. We have been able to serve customers better. So, our space for innovation is open."* (Ms. R – Manager KII)

Rate of penetration of innovation in the banking sector	Different banks were at different rates of penetration. Mobile banking and internet banking lead in penetration. ATMs have a high rate of penetration but low access. Agency banking has contributed immensely to bank performance	*"The uptake of innovation has really improved the performance of our bank …anyone can come to the bank and can also make the transaction elsewhere without the need to come to the bank."* (Mr. M – Manager KII) *"The rates of customers who have switched to the innovations especially mobile and internet banking is high and still increasing..."* (Ms. F – Manager KII) *"Internet banking uptake is also high although efficiency of the system sometimes affects performance."* (Mr. W – Manager KII) *"We have performed well and also experienced excellent performance due to the use of ATM, it has made service delivery easier and simpler for our esteemed customers who can access them."* (Ms. K – Manager KII) *"We also have agents, even in the informal settlements... So, innovation is helping us to spread to areas which were difficult to venture in in the past. The same way MPESA have agents everywhere, even the banks will have agents in all corners of this country."* (Mr. N – Manager KII)
Challenges to uptake of Innovation	Fraud is a major setback in full automation. Foreign owned banks plagued by bureaucratic systems. Bank innovation has led to redundancy.	*"There have been cases of fraud in Internet banking and people who are trying to con people using mobile phones. However, in our banking system we put safeguarding measures to ensure that such cases are reduced..."* (Ms. B – Manager KII) *"This Bank is a subsidiary and foreign owned. We face challenges with innovation in products unless the product is from head office. Challenges come from the head office where the people do not understand the local market…They greatly affect individual subsidiary innovation because of tedious approval process at the same time a lot of bureaucracy to obtain approval."* (Mr. R – Manager – KII) *"Internet banking, mobile banking, debit cards and ATM has made the banking system more efficient in favor of customers. But it has not worked in favor of bank staff. When there were no ATM machines, we were making sure we have as many tellers as possible, physical tellers, but when the machines came, we had to reduce because now the machine is doing the work that person could do so it has worked against banking staff...Customers find using the channels very simple."* (Mr. K – Manager KII)
Impact of innovation on bank profitability, financial management, efficiency, and productivity?	Profitability increased but dipped during COVID-19 pandemic.	*"Profitability was steady between 2017 – 2019. However, during COVID-19 we have noticed some drop in profit making. But as soon as the situation normalized, the profit growth curve started on an upward trajectory once again. During COVID-19 there were some businesses that were closed like in the hospitality sector... But after the situation normalized, there was increase in deposits and limited withdrawals."* (Mr. T – Manager – KII) *"In the last five years, the bank financial management has been improving... Digital channels have attracted many customers thus increasing the profits."* (Ms. P – Manager KII) *"We have experienced high productivity over the period in question... You can transact wherever you are*

Financial management and efficiency improved. Improved productivity due to high adoption and ease of use. Adoption of innovations has led to better performance.	*whenever you want. You don't need to go to the bank. This has in effect reduced the operational costs on the part of the bank."* (Mr. J – Manager KII) *"The adoption of internet banking has given us competitive advantage over other banks since it has increased the efficiency, speed and accuracy of our services. Our banks performance has relatively improved from 2017 to date."* (Ms. R – Manager KII) *"Internet banking and the debit card has helped so many people… Our general or overall performance is just positive of course because of those innovations on mobile banking, internet banking debit card and ATMs."* (Mr. P – Manager KII)

Source: Key Informant Interviews Data (2024)

Response Rate

The study targeted to collect data using a structured questionnaire from 370 Managers (206 from Large Tier Banks, 74 from Medium Tier Banks and 90 from small Tier banks) in all the 39 Licensed Commercial Banks in Kenya with headquarters in Nairobi City County, Kenya. This distribution of respondents is shown in Table 8, which is a cross-tabulation of the response rate per tier and management category. The middle management category recorded more responses in all the tiers as they were more available to fill in the questionnaires than the senior management category.

Table 8

Response Rate

Respondent Category	Target Sample	Actual Response	Response Rate
Senior Management			
·Large Tier	62	38	61%
·Medium Tier	22	17	77%
·Small Tier	27	11	41%
Middle Management			
·Large Tier	144	156	108%
·Medium Tier	52	63	121%
·Small Tier	63	67	106%
Total	**370**	**352**	**95%**

Source: Survey Data (2024)

From Table 4.1, it is noted that out of the 370 questionnaires distributed, 352 were filled in and returned from the bank managers, representing a 95% response rate. In terms of the bank tier groups, it was observed that for the senior management, there was a 61% response rate for those in large tier banks, 77% for medium tier banks and finally 41% for small tier banks. Based on these results, it was found that the middle management had the highest response rate of 121% for medium-tier banks, 108% for large tier banks and lastly small tier banks had the least response rate at 106%. The response rate was found to be adequate for analysis as posited by Mugenda (2009) who concluded that a response rate of 50% is sufficient for analysis and reporting, a rate of 60% is good while 70% and above is excellent for purposes of analysis. The response rate for all the 3 bank tiers was therefore excellent and representative to permit data analysis and reporting.

Demographic Information

The study obtained demographic information relating to the respondent's bank ownership, bank tier group, number of years bank has operated in Kenya, respondent's gender, number of years worked in the bank, management position held in the bank and department in the bank. The results are shown in tables 9 to 10 and Figures 4 to 7.

Bank Ownership

Commercial banks in Kenya are categorized in terms of their ownership, Out of the 39 banks operating in Kenya, 2 banks operate as local public commercial banks, 20 as local private commercial banks and 17 are foreign owned CBK (2020). Similarly, the respondents were grouped into various categories and the results are presented in table 9.

Table 9

Bank Ownership

	Frequency	Percent	Valid Percent	Cumulative Percent
Local Public Commercial Bank	42	11.9	11.9	11.9
Local Private Commercial Bank	165	46.9	46.9	58.8
Foreign Commercial Bank	145	41.2	41.2	100.0
Total	**352**	**100.0**	**100.0**	

Source: Survey Data (2024)

From the data collected, 42 respondents representing 11.9% were from Local Public Commercial Banks, 165 respondents representing 46.9% were from Local

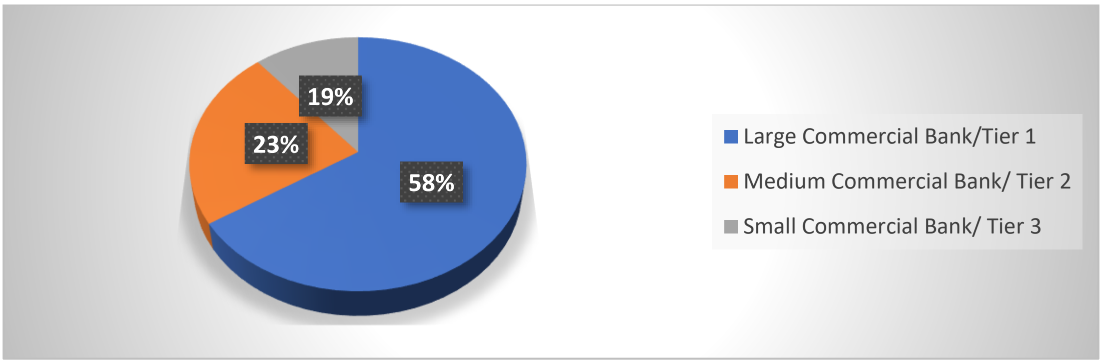
Private Commercial Banks, while 145 respondents representing 41.2% of the respondents were from Foreign Commercial Banks which is representative of the Kenyan banks.

Bank Peer Group/ Tier

Commercial banks in Kenya are further categorized into peer groups/ tiers depending on their market share. Large tier group banks represent 74.55%, medium tier group banks represent 17.10%, while small tier groups represent 8.22% of the market share CBK (2020). The respondents were also grouped into various tiers and the results are presented in figure 4.

Figure 4

Distribution of Banks by Peer Group



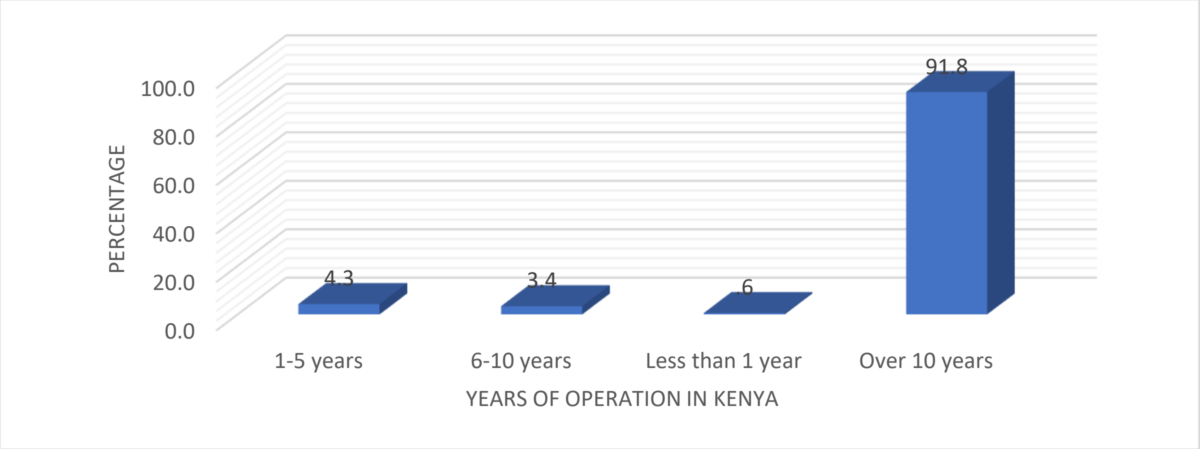
Source: Survey Data (2024)

From the data collected, in terms of commercial bank tier/peer groups 58.2% (205) of the respondents worked in tier 1 banks, 22.7% (80) represented tier 2 banks while 19% (67) worked in tier 3 banks which is in line with the targeted sample size where tier 1 banks have most managers followed by tier 2 and then tier 3 due to their large branch network (CBK, 2022).

Number of Years Bank has operated in Kenya

Different commercial banks in Kenya have operated in Kenya for different years. The banks were grouped as those operating in Kenya for less than one year, between 1-5 years, 6-10 years and finally above 10 years. The respondents were also grouped into various categories and the results are presented in figure 5.

Figure 5 Distribution of Banks by Years of Operation in Kenya



Source: Survey Data (2024)

From the data collected, 2 (0.6%) respondents had worked in a bank that had operated less than one year representing, 15 (4.3%) had worked between 1-5 years, 12 (3.4%) had worked for banks which had operated between 6-10 years representing while 323 (91.8%) respondents representing worked for banks that had operated in Kenya for over 10 years. The results show that majority of the respondents worked in banks that had operated in Kenya for over 10 years which represents that they had been able to withstand various seasonal trends in the market that would affect performance. This is relevant to the study due to the dynamic nature of the economy during these seasons and the need to be innovative to not only survive but thrive (Muigai & Gitau, 2018).

Gender of Respondents

The respondents were also categorized based on gender into either male or female and the results are presented in table 10.

Table 10

Gender of Respondents

Gender		Frequency	Percent	Valid Percent	Cumulative Percent
	Male	206	58.5	58.5	58.5
	Female	146	41.5	41.5	100.0
	Total	**352**	**100.0**	**100.0**	

Source: Survey Data (2024)

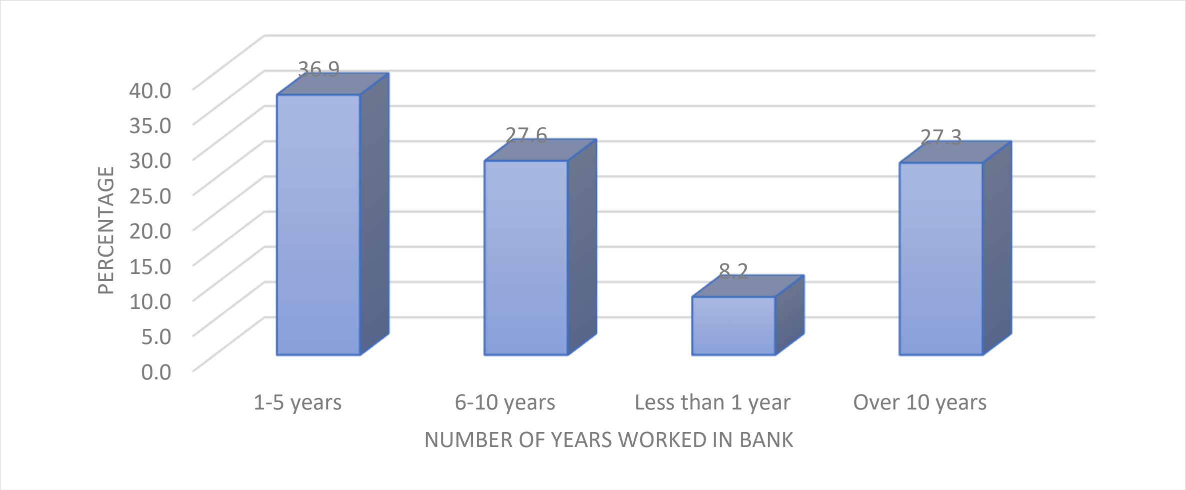
The results also show that out of the 352 respondents, 206 (58.5%) were male, while 146 (41.5%) were female. This shows that there is a slight disparity in gender with more male taking up management positions in both middle and senior management levels. Men are known to be more aggressive in pursuing senior positions where they would have a higher support for innovation due to their largely greater appetite for risk than their female counterparts and hence, are likely to ascend to senior positions and work better within prescribed working methods.

Number of years worked in the Bank.

The questionnaire also sought responses on the number of years the respondents had worked in the bank to obtain information on their experience and the results are presented in figure 6.

Figure 6

Distribution of Respondents by Number of Years Worked in Bank



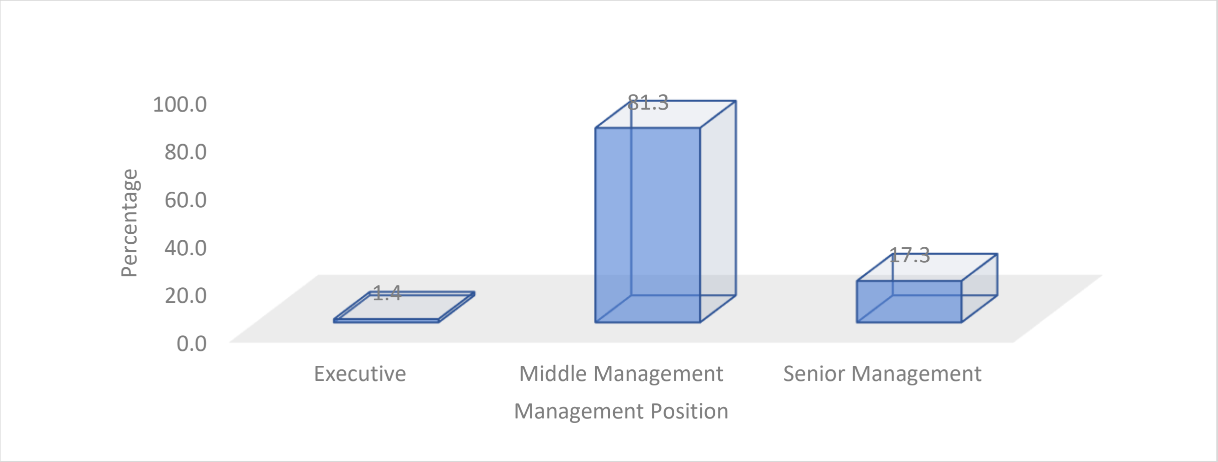
Source: Survey Data (2024)

The study established that regarding the number of years worked in the current commercial banks 29 (8.2%) respondents had worked in their bank for less than one year, 130 (36.9%) respondents had worked between 1-5 years, 97 (27.6%) respondents had worked between 6-10 years, while 96 (27.3%) respondents had worked in their bank for over 10 years. From the results, it can be observed that 193 (54.9%) of the respondents had worked in the commercial banks for more than 6 years. The respondents therefore had adequate knowledge about the commercial banks and therefore, provided reliable information. The findings concur with Ngumi (2013), CBK (2022) who observed that there has been exponential growth in the number of commercial bank branches in the last decade.

Management Position Held in The Bank.

The study also sought to establish the respondents on the management positions held in the bank as the sample was to be drawn from senior and middle level managers and the results are presented in figure 7.

Figure 7
Distribution of Respondents by Management Position Held



Source: Survey Data (2024)

From the results, it is also observed that majority of the respondents 286 (81.3%) represented Middle Level Managers; hence, were more involved with managing teams at the bank branches and head office, 61 (17.3%) were Senior Managers, while 5 (1.4%) were executive managers who provided more insight into how innovation affects performance. This shed light to the study on the level of implementation of various innovations at the shop floors where middle managers supervise those who deliver the services to the clients in the most efficient way while minimizing operational costs (Abdulrahman, 2019).

Instrument Reliability and Validity

The study sought to establish the extent to which the questionnaire would produce similar and consistent results in various occasions under similar conditions. Reliability was tested via internal consistency using Cronbach alpha. The reliability results are as shown in Table 11.

Table 11

Summary of Reliability statistics

Variable	Cronbach's Alpha	Remarks
Transformational Leadership	0.933	Reliable
Transactional Leadership	0.934	Reliable
Authentic Leadership	0.931	Reliable
Innovation	0.948	Reliable
Performance of commercial banks	0.983	Reliable
Overall Cronbach's Alpha	0.978	Reliable

Source: Survey Data (2024)

Table 11 shows the reliability based on the field study. The results showed that transformational leadership style used in the banks had a coefficient of 0.933, transactional leadership style had 0.934, authentic leadership had 0.931, types of innovation had 0.984, while performance of commercial banks had 0.983. The overall Cronbach's Alpha of the main study was 0.978 while that of the pre-test was 0.78, therefore, based on the results, all the variables had a Cronbach Alpha coefficient greater than 0.7. Therefore, based on Field (2018), it was found that the instrument was reliable; hence, the conclusion of the study is that the responses in the questionnaire had internal consistency.

Interpretive validity of the qualitative findings was determined to ensure that responses and interpretations were not based on researcher's perspective but that the researcher reported the meanings attached by the respondents to the events or objects (Thompson, 2011). This was increased by using a purposeful sample of senior and middle level managers and successive interviews using a key informant interview guide were based on suggestions from respondents with divergent points of view to test the findings. Triangulation of methods and data collection was also achieved for the purpose of confirming constructs and deciphering meanings by linking them with quantitative findings collected via questionnaire (Franklin & Ballan, 2001).

Descriptive Analysis

This section provides descriptive statistics on the study variables, transformational leadership, transactional leadership, authentic leadership, innovation, and performance. The descriptive statistics summarize the study variable's characteristics. The responses from the respondents to the statements on each of the variables were provided on a scale of 1-5. Mean and standard deviation were used as measures of central tendency in this study to summarize the characteristics of the variables under investigation based on the responses given by the respondents from the 5-point Likert scale questionnaire. The discussion of each variable will be done separately, and the responses are presented in separate tables followed by discussions.

Transformational Leadership

Transformational leadership was the study's first independent variable. The reason for adopting the variable in the study was because the contexts in which organizations including the banking sector in Kenya are operating today are characterized by change; therefore, requiring the input of transformational leaders. Moreover, TL is relevant in influencing the performance of commercial banks as proposed by the transformational leadership theory which was conceptualized by Burns in 1978 describing transformational leaders as those who tap on their followers' motives to better arrive at the common objective for both leaders and followers (Grošelj et al., 2020; Northouse, 2021). The variable was operationalized using four constructs: charisma or idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Nandasinghe, 2020; Nazim et al., 2017; Northouse, 2021;

Xie, et al., 2018; Yildiz, et al., 2014). The questionnaire sought to measure the extent to which commercial banks identify and adopt transformational leadership style to support innovation for purposes of service delivery and performance improvement. Table 12 presents the mean score and standard deviation of the responses of each attribute of transformational leadership.

In qualitative data, organizational culture emerged as a theme which represents the set of norms that are generally acceptable to the organization members. The norms consist mainly of beliefs and values. Beliefs emanate from experience and are focused on reality, while values represent desirable principles that are merit pursuing after (Magee, 2002). It represents the peculiar variety of principles and an embedded psychological framework that is shared by everyone in the organization (Paramita, et al., 2020). Consequently, this determines the various interactions of these people with each other and with outsiders. When the beliefs and values are shared this creates a business culture (Azhar, 2003) which is a major source of competitive advantage and leads to sustainable financial performance (Joseph & Kibera, 2019). The nature of organizational culture on an organization is that it has a pervasive effect since it defines the interaction amongst key actors who comprise of relevant employees, customers, suppliers, and competitors (Barney, 2012).

Table 12

Descriptive Statistics for Transformational Leadership

Statement **Idealized Influence**	**Mean**	**Standard Deviation**
Emphasizing the importance of having a collective sense of mission	4.24	0.68
Acting in ways that builds followers respect	4.23	0.68
Going beyond self-interest for the good of the group	4.19	0.67
Displaying a sense of power and confidence	4.18	0.69
Instilling pride in followers for association	4.17	0.78
Specifying the importance of having a strong sense of purpose	4.17	0.69
Considering the moral and ethical consequences of decision	4.18	0.70
Sub variable Aggregate	**4.18**	**0.71**
Inspirational Motivation		
Expressing confidence that goals will be achieved.	4.29	0.66
Talking optimistically about the future	4.24	0.72
Articulating a compelling vision for the future	4.24	0.71
Sub variable Aggregate	**4.26**	**0.70**
Intellectual Stimulation		
Seeking different approaches when solving problems	4.17	0.73
Getting followers to look at problems from many different angles.	4.09	0.72
Re-examining critical assumption to know whether they are appropriate	4.03	0.76
Sub variable Aggregate	**4.10**	**0.74**
Individualized Consideration		
Helping followers to develop their strengths	4.07	0.79
Spending time teaching and coaching	3.90	0.89
Considering followers as having different needs, abilities, and aspirations from others	3.76	0.87
Treating followers as individuals rather than just members of the group	3.75	0.98
Sub variable Aggregate	**3.87**	**0.88**
Aggregate TL Scores	**4.10**	**0.76**

Source: Research Data (2024)

The results in Table 12 show that the 352 sampled leaders of commercial banks apply Inspirational Motivation to achieve the desired performance with a mean score of 4.26 and a standard deviation of 0.70, followed by Idealized Influence with a mean score of 4.18 and a standard deviation of 0.71. The dimension that stood out was emphasizing the importance of having a collective sense of mission which also emerged in the theme of organizational culture in qualitative data. The intensity or strength of culture, and its adaptiveness drive operations in the organization because it helps to keep everyone focused as they play their individual roles in the organization. According to (Schein, 2011), the aspect of culture is considered an important factor in leadership as it enhances internal consistency as well as the flexibility with which to respond to external environmental dynamism.

The qualitative data was supportive of this position in that one of the major themes that emerged from the in-depth interviews was that touching on organization culture. The dimensions of the culture they seemed to identify are those that are related to the consistency and flexibility in connection with the vision of the banks and its role in steering the bank into their desired future. The interviewees observed that there has been a lot of effort put by management in ensuring that all the employees are fully aware of the vision of the banks, such that management has an easy task of explaining to the employees about the long-term direction of the banks. Towards this, two informants observed that:

> *"The organizational leadership is visionary. In articulating the vision, the leaders are very clear of the company vision and always make sure that every decision they make is in line with the vision. The leaders openly make the vision clear to everyone working in the bank to ensure there's a common work culture."* (Ms. N – Manager KII)

> *"My leader clearly articulates the vision and what is expected of each party to be able to meet the overall vision of the company. He believes that only successful performance of day-to-day activities can cumulatively lead us to achieving the overall company vision. He believes that the team needs to be well trained and join hands together. His style of leadership lies in ensuring that the team works as one to*

> *achieve the overall mission and vision of the company as they assist one another."* (Mr. R – Manager KII)

Other aspects of culture pointed out by the informants' touch on openness and consultative approach to management as it is a key ingredient in ensuring the staff share in the vision and are committed towards working towards its achievement. The relevant aspects of these were well rated in the inspirational motivation dimension in descriptive statistics with a (M= 4.26, S.D =0.70). Informant Mr. T had this to say:

> *"When you are open with your staff, they understand what they are doing. You see, if you keep the vision to yourself and you just come up with a plan, they will not know why this plan is in place. They may not know why they should implement certain things. So, it is important to involve and inform them at the initial stages. Ensure you get everybody involved. Get everybody at the table when you are coming up with a plan. Then you share out that plan once everyone has understood it."* (Mr. T – Manager KII)

From the descriptive data, Intellectual Stimulation had a mean of 4.10 and a standard deviation of 0.74 and finally Individualized Consideration with a mean of 3.87 and a standard deviation of 0.88 where the leader helps followers develop their strengths (M= 4.07) and spends time teaching and coaching followers (M=3.90). This view was supported by the interviewees who emphasized the need for mentoring and coaching subordinates mainly through delegation of certain functions and only offering support when required. As leaders, they admitted to their important role as facilitators of the process through designation of tasks which instills confidence and a sense of pride in the staff. Concerning this, one informant observed that:

> *"After you have shared the plan, the next very important aspect is to assign responsibilities. So, you give people responsibilities, after sharing the plan, they have understood what you are doing where they're going then now delegate roles to help achieve the vision. Let the people execute their functions. I think the last one that I can tell is all for benchmarking. You know …there are people who may have already achieved what you want to achieve, so, go and ask them, consult them,*

let them help with ideas so that you don't start from nowhere." (Mr. T – Manager KII)

Based on the results, it is observed that most leaders in the commercial banks seek to utilize Inspirational Motivation to practice Transformational Leadership to drive performance by pointing the employees to a desired future. It is also noted that there is little disparity among the constructs of Transformational Leadership with the standard deviation ranging from 0.70 to 0.88. On aggregate, transformational leadership had a mean score of 4.12 and a standard deviation of 0.75. When interviewed, some respondents felt that their superiors exhibited the tenets of transformational leadership. However, many of the leaders opined that they mostly oscillated between being democratic and authoritarian as the circumstances demanded. But they all underscored the importance of being inspiring and trying as much as possible to involve people in decision making as articulated by informant Ms. W:

> *"I would categorize my leader as a transformational leader. He motivates the staff and is well-articulated, he inspires team members to achieve defined goals and is also excellent in presenting and explaining strategic focus."* (Ms. W – Manager KII)

These findings are consistent with observations by Khajeh (2018) who affirms that the transformational leader focuses on overall skill building, moralities, and motivating followers. Transformational leadership is seen as the cornerstone and key driver of organizational performance which is practiced to a high extent in commercial banks in Kenya; thereby, increasing performance.

Transactional Leadership

Transactional leadership was the second independent variable in this research. In the banking industry, the rewards and promotion of the employee is mainly based on performance and the leader-follower relationship is often viewed from a pragmatic perspective as is the case of transactional leadership. The proponents backing this style propagate leadership from the view that people will follow a leader because of the rewards (Abdelwahed et al., 2022; Belmejdoub, 2015; Iskamto et al., 2021). The basis is a social exchange relationship existing among those who lead and their supporters where the leader gives and gets something and on follower's perceptions on fairness, equitable treatment, and justice (Hollander, 1978). The transactional leader believes that people are motivated by rewards or punishment (Kolzow, 2014). This study therefore, adopted this variable to understand how commercial banks apply this leadership style to drive employee performance and their ability to innovate.

The variable was operationalized through contingent rewards, active management by exception and passive management by exception. In this regard, the respondents were requested to express their opinion on the extent to which commercial banks identify and adopt transactional leadership style to support innovation for purposes of service delivery and performance improvement. The obtained results of each attribute of transactional leadership mean scores and their respective standard deviations are shown in table 13.

Table 13

Descriptive Statistics for Transactional Leadership

Statements **Contingent Rewards**	**Mean**	**Standard Deviation**
Expressing satisfaction when followers meet expectation	4.20	0.74
Making clear what followers can expect to receive when performance goals are achieved	4.00	0.83
Providing followers with assistance in exchange for their effort	3.98	0.81
Sub variable Aggregate	**4.06**	**0.79**
Management by Exception (Active)		
Focusing attention on irregularities, mistakes, exceptions, and deviations from standards	3.50	1.08
Concentrating his/her attention on dealing with mistakes, complaints, and failures	3.48	1.05
Keeping track of all mistakes	3.44	1.12
Directing followers' attention toward failures to meet standards	3.43	1.10
Sub variable Aggregate	**3.46**	**1.09**
Management by Exception (Passive)		
Failing to interfere unless problems become serious	3.15	1.32
Showing that he/she is a firm believer in 'if it isn't broke don't fix it'	3.02	1.35
Demonstrating that problems must become chronic before acting	2.90	1.36
Sub variable Aggregate	**3.02**	**1.34**
Aggregate Transactional	**3.52**	**1.07**

Source: Research Data (2024)

The results in table 13 show that the leaders of commercial banks in Kenya utilize contingent rewards to drive performance of employees to a great extent with a mean score of 4.06 and a standard deviation of 0.79. Further, senior, and middle managers also apply active management by exception to a moderate extent with a mean score of 3.46 and a standard deviation of 1.09, followed by passive management by exception with a mean score of 3.02 and a standard deviation of 1.34. It is noted that commercial banks in Kenya attempt to apply transactional leadership from a high to moderate extent with mean scores ranging from a high of 4.06 to a low of 3.02. The study also finds that there is a high disparity in the extent to which leaders in commercial banks apply transactional leadership with a standard deviation ranging from a high of 1.34 to a low of 0.79.

The overall mean score for the variable was observed at 3.52 with a standard deviation of 1.07. There was average presence of transactional leadership in the sampled commercial banks. The theme of the role of organizational culture used in explaining the state of transactional leadership based on the qualitative data was also found to have relevance in this variable of transactional leadership. The descriptive statistics indicate that the contingent reward component was ranked high (M=4.06).

The informant interview was of the view that the dimension of culture is relevant by way of managing relationships among staff and with the leaders as well as ensuring consistency in pursuit of organizational goals. The logic brought in from the interviews agrees with extant conceptual and theoretical literature. For example, Abdelwahed et al. (2022) and Mulonzi et al. (2017) noted Transactional leadership is very commonly applied in today's performance-oriented organizations where targets are set mostly at the beginning of the year and rewards such as bonuses and salary increment tied to performance in relation to set targets. Once the set targets are achieved and rewards given, the reward serves as the motivator to meet the next set of targets. The transactional leader's main role is to reward good performance and punish poor performance.

Authentic Leadership

Authentic Leadership, the study's third independent variable was adopted because in these tumultuous and demanding times, there is a call for leadership that is genuine throughout the world (Avolio, 2011). The dynamic environment organizations are operating in today where an economic change in one part of the world can send shock waves in the world economic systems like the financial crises that shrouded the American banking systems in 2008 and more recently the collapse of Silicon Valley Bank and Silver Gate Bank in March 2023 (Manda, 2023; Paraschiv, 2013). The Kenyan Banking Sector has not been an exception either with the Central Bank of Kenya having placed three banks under receivership in 2015/2016 in very quick succession indicating systemic disruptions and the presence of leadership challenges (Koskei, 2020; Osebe & Chepkemoi, 2016).

The scandals facing both public and private firms throughout the world have created fear and uncertainty and there is a lot of apprehension and insecurity. There is an earnest search for genuine and trustworthy leadership in addition to good, honest leaders which makes it an opportune and sensible moment in time to study authentic leadership (Jang, 2022; Northouse, 2021). The mentioned problems have created a renewed spotlight in restoration of optimism and expectation in the rapid resilience from disastrous events (Avolio &Gardner, 2005). This calls for leaders who lead from their beliefs and values, morals, and principles (Avolio & Luthans, 2006) which are essential to the banking system which plays a role as financial intermediaries based on public trust.

The variable was operationalized through self-awareness, balanced information processing, authentic behavior, and relational transparency (Gardener et al., 2005; Hughes, 2005; Ilies et al., 2005). In this regard, the respondents were requested to express their views as to the degree to which commercial banks identify and adopt authentic leadership styles to support innovation for purposes of service delivery and performance improvement. The obtained results of each attribute of authentic leadership mean scores and their respective standard deviations are shown in table 14.

Table 14
Descriptive Statistics for Authentic Leadership

Statements	Mean	Standard Deviation
Self-Awareness		
Seeking the opinions of others before making up their own mind	3.88	0.91
Ability to list their three greatest strengths	3.76	0.85
Portraying an awareness of his/her three greatest weaknesses	3.27	1.15
Sub variable Aggregate	**3.64**	**0.97**
Internalized Moral perspective		
His/her morals guide what he/she does as a leader	3.95	0.71
Actions reflect his/her core values	3.90	0.80
Does not allow group pressures to control him/her	3.88	0.94
Making others know his/her stand about controversial issues	3.76	0.89
Sub variable Aggregate	**3.87**	**0.84**
Balanced Processing		
Listening very carefully to the ideas of others before making decisions	4.04	0.82
Listening closely to the ideas of those who disagree with them	3.94	0.89
Seeking others' opinions before making up his/her mind	3.93	0.84
Does not emphasize own point of view at the expense of others	3.83	0.95
Sub variable Aggregate	**3.94**	**0.87**
Relational transparency		
Openly shares feelings with others	3.74	0.96
Letting others know who they truly are as a person	3.68	0.86
Rarely presents 'false' front to others	3.66	1.12
Admitting his/her mistakes to others	3.66	1.00
Sub variable Aggregate	**3.69**	**0.98**
Aggregate Authentic	**3.78**	**0.92**

Source: Research Data (2024)

The results from Table 4.8 show that leaders of commercial banks in Kenya adopt balanced processing to deliver results through their staff with a mean score of 3.94 and a standard deviation of 0.87 followed by internalized moral perspective with a mean score of 3.87 and a standard deviation of 0.87. Further, the respondents viewed their leaders as applying relational transparency as a means of connecting with their employees with a mean score of 3.69 and a standard deviation of 0.98 and finally they moderately depicted elements of self- awareness with a mean score of 3.64 and a standard deviation of 0.97. It is noted that senior and middle level managers of Kenyan commercial banks attempt to practice authentic leadership to a high extent with mean scores ranging from a high of 3.94 to a low of 3.64. The study also shows a low disparity in the extent to which authentic leadership is applied by the leaders with the standard deviation ranging from 0.84 to 0.98. The overall mean score for the variable was observed to be 3.78 with a standard deviation of 0.92. There was a high incidence of authentic leadership as reported by the respondents.

Innovation

Innovation was adopted in the study as a mediating variable. The variable was adopted because commercial banks offer similar products and services but there is need to be innovative in their provision of service to customers to favorably compete in these changing times. A product/ service innovation is a primary way of the organizations adjusting to the market, technology or competitive fluctuations and may include small adaptations to existing products. In technology innovation, a change in the organization's production process makes construction of a product or service more efficient or produces greater volumes (Daft, 2010) thereby driving better performance. Leaders play a central role in driving innovation. Innovation is becoming an organizational priority and a shared responsibility. Ultimately it is the role of the top leadership in any organization to provide direction during changing times; however, the involvement of other organization members is required (Sawasn et al., 2019). The leader must, therefore, be armed with the right people skills in addition to their functional skills to positively drive change (Lloyd & Feigen, 1997).

In a rapidly changing and dynamic world, innovation and being innovative becomes key in driving performance and profitability (Oweis & Alghaswyneh, 2019) in the banking sector in Kenya and beyond. The study sought to understand from the managers' point of view the extent to which commercial banks in Kenya encouraged and nurtured innovation and innovative solutions to service delivery as well as to normal operations. Secondly, the study also sought to assess the rate of penetration of four main innovations in the banking sector; namely, mobile banking; internet banking debit and credit cards and Automatic Teller Machines (ATMs). From the key informant interviews, another theme of agency banking emerged as having contributed immensely to the bank's performance and profitability. This is mainly due to customer perceptions who view it as 'the bank in the neighborhood'. Consequently, it has eased the burden of travelling on the part of the customer in search of banking services. Customers can easily open bank accounts, make deposits and withdrawals and even pay for the children's school fees within their neighborhood as observed by one informant:

> *"You see nowadays, bank branches are everywhere even in areas where you did not expect to see a bank. We also have agents, even in the informal settlements, you will find a bank agent. They will help you to deposit or withdraw your money. We are trying to reach out to as many people as possible. So, innovation is helping us to spread to areas which were difficult to venture in in the past. The same way MPESA have agents everywhere, even the banks will have agents in all corners of this country."* (Mr. N – Manager KII)

Finally, the study also sought to assess the impact of these innovations on the performance of commercial banks in Kenya mainly in the areas of portfolio quality, financial management and efficiency, debt to equity ratio and overall profitability. Senior and middle level managers were the respondents in the study. This variable was operationalized through the leaders' attitude towards innovation and the types of innovation. In this section, the respondents were required to provide information on the types of innovation and how their bank and its leadership support an innovative culture which in turn affects the bank's overall performance. The results are shown in Table 15.

Table 15

Descriptive Statistics for Innovation

	Attitude towards Innovation	Mean	Standard Deviation
Leader's Attitude	Encourage new ideas, throughout the organization	4.3	0.74
	Encourage and support innovative employees	4.24	0.78
	Put innovation at the heart of your strategic planning	4.21	0.78
	Engage in shaping an innovative organization culture	4.19	0.82
	Gather and use information about our customers to build new products/ services	4.16	0.85
	Gather and use information about our competitors and markets	4.14	0.82
	Are effective at implementing change	4.11	0.79
	Aggregate	**4.19**	**0.80**
	Types of Innovation		
Mobile banking	Uptake of mobile banking has a positive effect on the bank's financial management	4.24	0.73
	Income from mobile banking has a high margin thereby contributing positively to bank profitability	4.22	0.79
	There has been increase in the uptake of mobile banking which has had a positive effect on the bank's portfolio quality	4.20	0.74
	We have experienced reduction in operation costs leading to better efficiency and productivity	4.10	0.75
	Aggregate	**4.19**	**0.75**
Internet Banking	Uptake of internet banking has a positive effect on the bank's financial management	4.11	0.78
	Internet banking influences reduction of operation costs leading to better efficiency and productivity	4.10	0.75
	Income from internet banking has a high margin thereby contributing positively to bank profitability	4.04	0.86
	Uptake of internet banking has a positive effect on the bank's portfolio quality	4.01	0.89
	Aggregate	**4.07**	**0.82**
Debit and credit cards	Uptake of debit and credit cards has a positive effect on the bank's financial management	4.09	0.83
	Debit and credit cards influence reduction of operation costs leading to better efficiency and productivity	3.99	0.82
	Income from debit and credit cards has a high margin thereby contributing positively to bank profitability	3.98	0.85
	Uptake of debit and credit cards has a positive effect on the bank's portfolio quality	3.93	0.89
	Aggregate	**4.00**	**0.85**
Automated Teller Machines (ATM)	ATMs influence reduction of operation costs leading to better efficiency and productivity	4.12	0.82
	Uptake of ATMs has a positive effect on the bank's financial management	4.10	0.76
	Income from ATMs has a high margin thereby contributing positively to bank profitability	4.09	0.80
	Uptake of ATMs has a positive effect on the bank's portfolio quality	4.00	0.82
	Aggregate	**4.08**	**0.80**
	Aggregate Innovation	**4.10**	**0.80**

Source: Research Data (2024)

The results in Table 15 show that most of the respondents opined that leaders of commercial banks in Kenya encourage new ideas throughout the organization to a great extent with a mean score of 4.3 and a standard deviation of 0.744. Additionally, the leaders encourage and support innovative employees to a great extent with a mean score of 4.24 and a standard deviation of 0.78, as well as put innovation at the heart of their strategic planning with a mean score of 4.21 and a standard deviation of 0.78. When interviewed, the respondents felt that in any organization, challenges and problems will always arise. What defines and separates a successful organization from a failed one is the approach taken to address and solve the challenges and the problems. Some organizations have clearly laid down procedures on how challenges and or problems should be addressed. However, these procedures normally cater for the frequent occurrences. Sometimes, the challenge may not be a frequent occurrence and hence may call for more innovative ways of addressing and solving it. The study sought to understand from the manager's point of view the preferred approach in solving organizational problems. Many of managers opined that as much as there were laid down procedure in solving most organizational problems, there were other challenges since we live in a very dynamic world that could not be addressed using the traditional standard operating procedures. They agreed that as the world continued changing, there was need for more dynamic and innovative ways to deal with organizational challenges.

They similarly engage in shaping an innovative organization culture to a great extent with a mean score of 4.19 and a standard deviation of 0.82 followed by gathering and using information about their customers to build new products and services to a high extent with a mean score of 4.16 and a standard deviation of 0.85. Finally, the commercial banks also gather and use information about their competitors and markets to a high extent with a mean score of 4.14 and a standard deviation of 0.82 and are also effective at implementing change to a high extent with a mean score of 4.11 and a standard deviation of 0.79. The aggregate mean score for the variable in terms of leadership attitude was noted to be 4.19 and a standard deviation of 0.80. Based on the aggregate mean, it is noted that there is a high extent of leadership support for innovation. As to the extent of consistent support from empirical studies Ruddenklau (2018) found that the Chief Executive Officer should be the main driver of the innovation agenda for buy in from the employees.

The results in Table 15 were also categorized into the uptake of different types of innovation. Mobile banking ranked first as it was adapted to a high extent with an average of 4.19 and a standard deviation of 0.75. The respondents believed income from mobile banking has a high margin and thereby adopted to a high extent with a mean score of 4.22 and a standard deviation of 0.79, they also responded that there has been increase in the uptake of mobile banking which had enhanced the bank's portfolio quality to a great extent with a mean score of 4.20 and a standard deviation of 0.74. The uptake of mobile banking was also found to improve financial management to a great extent with a mean score of 4.24 and a standard deviation of 0.73. Finally, the respondents also retorted that they had experienced a reduction in operation costs leading to better efficiency and productivity to a high extent with a mean score of 4.10 and a standard deviation of 0.75.

Results from the key informant interview revealed that as far as the innovation's uptake is concerned, Mobile Banking took the lead which can be deduced from the convenience afforded by it. For instance, with mobile banking, one can conduct transactions at the touch of one's finger without physically leaving their premises as all they need is a mobile money account and a phone, and the process can be completed in very easy and clear steps. Informant Ms. F had this to say:

> *"The rates of customers who have switched to the innovations especially mobile and internet banking is high and still increasing. Therefore, mobile banking has had a better bottom line than internet and ATMs incomes."* (Ms. F – Manager KII)

The study also noted that automated teller machines ranked second in adoption to a high extent with an average mean of 4.08 and a standard deviation of 0.80. ATMs usage by customers points to reduction of operation costs, leading to better efficiency and productivity to a high extent with a mean score of 4.12 and a standard deviation of 0.82 and that uptake of ATMs improves the bank's financial management to a high extent with a mean score of 4.10 and a standard deviation of 0.76.

Similarly, income from ATMs has a high margin; thereby, increasing bank profitability with a mean score of 4.09 and a standard deviation of 0.80 and they also responded that uptake of ATMs improves the bank's portfolio quality to a high extent with a mean score of 4.0 and a standard deviation of 0.82. The responses from the key informant interviews revealed that the uptake of ATMs was still average despite high penetration mainly since convenience serves as a major factor in adoption of an innovation and customers are required to travel to access an ATM machine. Additionally, most ATM machines are typically in urban areas mainly near a brick-and-mortar bank branch and thus a customer in a rural area may not benefit as much from such an innovation. All in all, the informants reported that despite the uptake being average, ATMs had improved organizational performance as expressed by informant Ms. K:

> *"We have performed well and also experienced excellent performance due to the introduction and uptake of mobile banking, internet banking and also the use of ATM, it has made service delivery easier and simpler for our esteemed customers."* (Ms. K – Manager KII)

From the study, internet banking as an innovation ranked third as it improved performance to a high extent with an average mean score of 4.07 and a standard deviation of 0.82. From the responses, uptake of internet banking enhanced the bank's financial management to a high extent with a mean score of 4.11 and a standard deviation of 0.78 and internet banking influences reduction of operation costs leading to better efficiency and productivity to a high extent with a mean score of 4.10 and a standard deviation of 0.75. Similarly, income from internet banking has a high margin thereby contributing positively to bank profitability to a high extent with a mean score of 4.04 and a standard deviation of 0.86 and finally uptake of internet banking has a positive effect on the bank's portfolio quality to a high extent with a mean score of 4.01 and a standard deviation of 0.89.

This was supported by interviewed respondents who opined that internet banking was ranked lower than mobile banking because one needs an internet connection and preferably a computer or a smartphone. They, however, added that with this infrastructure in place, the process can be concluded as easily as with mobile banking. Managers, however, pointed out that there was an increased uptake of internet banking especially among the corporate customers who had access to the infrastructure. Overall, the informants revealed that internet and mobile banking had led to improved banks' performance due to reduced operational costs on the part of the banks. However, they also pointed out that uptake of Internet Banking had still not picked up as expected due to the efficiency of the systems as system failures from time-to-time affected performance. Informant Mr. W had this to say:

> *"Internet banking uptake is also high although efficiency of the system sometimes affects performance."* (Mr. W – Manager KII)

Lastly, debit and credit cards came forth as it improved performance to a high extent with an average mean score of 4.0 and a standard deviation of 0.85. Uptake of debit and credit cards enhanced the bank's financial management to a high extent with a mean score of 4.09 and a standard deviation of 0.83 and debit and credit cards influence reduction of operation costs leading to better efficiency and productivity also to a high extent with a mean score of 3.99 and a standard deviation of 0.82. Additionally, income from debit and credit cards has a high margin; thereby, improving bank profitability to a high extent with a mean score of 3.98 and a standard deviation of 0.85 and finally uptake of debit and credit cards improved the bank's portfolio quality to a high extent with a mean score of 3.93 and a standard deviation of 0.89. The interviewed respondents observed that there was low uptake of debit and credit cards since they required the use of machines such as ATMs and other point of sale terminals which are only accessible to a small population of the banked population compared to mobile banking. The overall mean score for innovation and performance was noted to be 4.10 and a standard deviation of 0.80.

Performance

The dependent variable in the study was performance. The main reason for its adoption is because business performance is output or outcome that is produced by an organization because of planned or intended activity (Yıldız & Karaka, 2012) and good performance is a consequence of carrying out work economically, efficiently, and effectively (Joseph & Kibera, 2019; Madanchian et al., 2016). The concept of performance depicts how employees reach their goals and describes the level of tasks achieved in relation to targets set for a given period of business (Nandasinghe, 2020). Organizational performance can be viewed as the degree of attainment of work mission as measured in terms of work outcome, intangible assets, customer link, and quality services (Saif & Siti, 2022). Kaplan and Norton (2001) posit that organizational performance is the organization's capacity to accomplish its goals effectively and efficiently using available human and physical resources.

There is a varied collection of behaviors that can be applied for measuring performance. However, Borman and Schmit (2012) accentuate judgmental and evaluative procedures that are considered when defining performance, while Iskamto et al., (2021) posits that there are indicators that can measure both the performance and risk levels of financial institutions. Ittner and Larcker (2012) contend that organization performance is a broader concept whose indicators include productivity, quality, consistency, efficiency as well as relative measures such as management development and leadership training for building necessary skills and attitudes among the workers.

Further, Ekinci and Poyraz (2019) add that the conceptualization of organizational performance can also be in terms of revenue, employee numbers, net income, geographical presence and expansion, increased market share and financial sustainability. In addition, Muigai and Gitau (2018) point out that the performance of an organization also comprises financial performance which includes market share, dividends, profits, return on assets, return on investment and sales volumes. For this study, organizational performance was measured in terms portfolio quality, financial management and efficiency, debt to equity ratio and the overall profitability of organization.

In this study, performance was operationalized through profitability, portfolio quality, financial management and efficiency and productivity. This study required the respondents to indicate the level of performance in the bank in a range of 1-20 over the last five years from 2017 to 2021. An average for each of the five years was computed and the results are shown in Table 16 and Figure 8.

Table 16

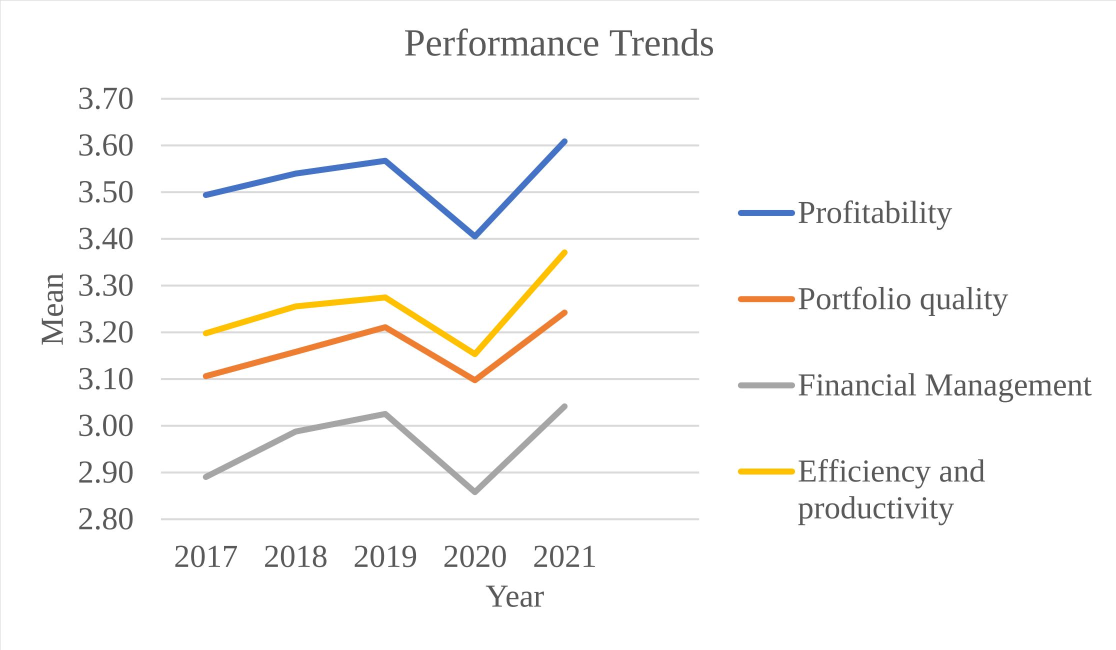
Descriptive Periodic Statistics for Performance

Aspects of performance	2017		2018		2019		2020		2021	
Profitability in:	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**	**Mean**	**Standard Deviation**
Return on investment	3.62	1.29	3.66	1.25	3.70	1.26	3.55	1.33	3.71	1.32
Return on equity	3.69	1.29	3.73	1.26	3.76	1.26	3.59	1.39	3.81	1.28
Return in assets	3.17	1.46	3.22	1.40	3.25	1.42	3.08	1.43	3.30	1.49
Aggregate	**3.49**	**1.35**	**3.54**	**1.30**	**3.57**	**1.31**	**3.41**	**1.38**	**3.61**	**1.36**
Portfolio Quality in terms of:										
Portfolio at risk level improved	3.14	1.29	3.24	1.28	3.29	1.28	3.20	1.34	3.30	1.30
Provision expense ratio is very low in this bank	3.13	1.32	3.15	1.31	3.20	1.31	3.03	1.38	3.20	1.39
The ratio of performing loan to restructured loan is significant in the bank	3.04	1.24	3.08	1.29	3.15	1.27	3.05	1.32	3.23	1.30
Aggregate	**3.10**	**1.29**	**3.16**	**1.29**	**3.21**	**1.29**	**3.09**	**1.34**	**3.24**	**1.33**
Financial Management in terms of:										
The bank's Debt/ Equity ratio increased	2.91	1.33	2.94	1.31	3.04	1.33	2.86	1.33	3.05	1.40
The bank's Debt/ Equity ratio decreased	2.91	1.37	3.10	1.38	3.09	1.37	2.88	1.39	3.07	1.40
There was no change in the bank's Debt/ Equity ratio	2.85	1.31	2.92	1.33	2.95	1.36	2.84	1.41	3.01	1.40
Aggregate	**2.89**	**1.33**	**2.99**	**1.34**	**3.03**	**1.35**	**2.86**	**1.38**	**3.04**	**1.40**
Efficiency and productivity in terms of:										
Customer Satisfaction Index Improvement	3.25	1.47	2.94	1.31	3.32	1.50	3.16	1.55	3.41	1.53
No. of customer complaints reduction	3.06	1.47	3.10	1.38	3.09	1.50	3.05	1.56	3.24	1.53
The bank's overall productivity ratio improvement	3.28	1.29	2.92	1.33	3.42	1.29	3.26	1.35	3.46	1.34
Aggregate	**3.20**	**1.41**	**2.99**	**1.34**	**3.28**	**1.43**	**3.16**	**1.49**	**3.37**	**1.47**
Aggregate Performance	**3.17**	**1.34**	**3.17**	**1.32**	**3.27**	**1.35**	**3.13**	**1.40**	**3.32**	**1.39**

Source: Survey Data (2024)

Figure 8

Trends for Descriptive statistics for performance



Source: Survey Data (2024)

The key informant interview on respondent's assessment of the profitability of the banks over the five-year (2017 – 2021) period was that it had grown and improved steadily between 2017 – 2019. However, they appreciated the fact that during COVID-19 Pandemic in 2020/2021 the profits dipped but were once again on an upward trajectory after the reopening of the economy. This was almost unanimous among all the informants and expressed by one interviewee as:

> *"Profitability was steady between 2017 – 2019. However, during COVID-19 we noticed some drop in profit making. But as soon the situation normalized, the profit growth curve started on an upward trajectory once again. During COVID-19 there were some businesses that were closed like in the education and hospitality sector. Schools, hotels, and restaurants in the food business were shut down. We noticed that the rate of deposit was very low while withdrawals were very high so that was a bit threatening/ scary if customers are only withdrawing and are not depositing as a manager you must be worried. But after the situation normalized, there was increase in deposits and limited withdrawals."* (Mr. T – Manager – KII)

The informants similarly pointed out that the adoption of innovations had led to the improvement of financial management and efficiency in the banking sector. They reported that the uptake and use of internet banking, mobile banking as well as ATMs had reduced operating costs for the banks and consequently improved their financial management and efficiency. Informant Ms. P had this to say:

> *"In the last five years, the bank financial management has been improving because internet banking has minimized operations cost for the banks, improved service delivery and enhanced accessibility to a wider market. It is also convenient for the customers. It has attracted many customers thus increasing the profits."* (Ms. P – Manager KII)

Additionally, those interviewed opined that productivity had greatly improved due to adoption and uptake of the innovations in the banking sector as observed by one informant:

> *"We have experienced high productivity over the period in question. It has been improved using mobile and internet banking and the use of ATMs. With mobile and internet banking the cost of travelling to the bank is eliminated. You can transact wherever you are whenever you want. You don't need to go to the bank. This has in effect reduced the operational costs on the part of the bank."* (Mr. J – Manager KII)

In terms of the assessment of the overall banks' performance between 2017-2021, the informants were confident that the adoption and uptake of innovation has greatly improved the performance of commercial banks. Some felt that the adoption had given them a competitive edge over their competitors who were still struggling with the traditional methods of service delivery. They hailed the internet banking platform for enabling especially their corporate customers to conduct international trade and pay for goods and services at the touch of a button as articulated by informants Ms. R and Mr. P:

> *"The adoption of internet banking has given us competitive advantage over other banks since it has increased the efficiency, speed and accuracy of our services. Our banks performance has relatively improved from 2017 to date."* (Ms. R – Manager KII)

> *"Internet banking and the debit card has helped so many people. It has affected our performance positively. Our general or overall performance is just positive, it's positive of course because of those innovations on mobile banking, internet banking debit card and ATMs."* (Mr. P – Manager KII)

However, it has not been all boom for the adoption of technology. As much as it led to efficiency in service delivery, it also pointed to the reduction of staff physically required to serve the customers. Therefore, as much as the adoption of innovation has contributed to efficiency on one hand it has also led to massive layoffs and the introduction of voluntary early retirement schemes on the other. As much as it reduced the operation cost for the banks, the question that begs an answer is: At whose expense? as observed by informant Mr. K:

> *"Internet banking, mobile banking, debit cards and ATM has made the banking system more efficient in favor of customers. But it has not worked in favor of bank staff. When there were no ATM machines, we were making sure we have as many tellers as possible, physical tellers, but when the machines came, we had to reduce because now the machine is doing the work that person could do so it has worked against banking staffs but for customers it has worked in favor of them and it has helped the bank in terms of making profit and efficiency. We now have more customers coming because it is more efficient and more convenient to take your money to the bank and withdraw your money. Deposit from M-pesa through Internet or debit card. Customers find it very simple to transact."* (Mr. K – Manager KII)

The results in Table 16 also show that senior and middle managers of commercial banks in Kenya opinioned that their profitability had grown on average between 10-15% with a mean score of 3.52 and a high deviation in profitability with a standard deviation of 1.34. The return on equity had the highest mean score of 3.72

followed by return on investment with a mean score of 3.67 and finally return on assets at a mean score of 3.52 and standard deviations of 1.29,1.29 and 1.44 respectively indicating that there was a high deviation in the level of profitability. Similarly, the study found that efficiency and productivity also had recorded improvement on averaging between 10-15% with a mean score of 3.20 and a high deviation in the level of efficiency and productivity reporting a standard deviation of 1.43 mainly because banks performed at varied levels. One of the informants reported that the increased level of efficiency and profitability was due to the deployment of an effective leadership style:

> *"In terms of performance, I will say there has been efficiency in serving our customers. The profit margin has also grown. I attribute all this to good governance and the leadership here where you allow each team member to participate in giving new ideas. We have realized that the performance of every staff has contributed positively to the profitability of the company and how we serve our customers."* (Ms. B – Manager KII)

The bank's overall productivity ratio improved the highest with a mean score of 3.27 followed by improvement in the customer satisfaction index with a mean score of 3.22 and finally reduction in the number of customer complaints with a mean score of 2.11. The standard deviations depicted a high deviation in the level of efficiency and productivity with scores of 1.32, 1.47 and finally 1.49 respectively. Portfolio Quality came third as a measure of performance averaging between 10.15% with a mean score of 3.16 and a high deviation in the level of portfolio quality with a standard deviation of 1.31. The respondents ranked an improvement in the level of portfolio at risk first with a mean score of 3.24 followed by a very low provision expense ratio in their banks with a mean score of 3.14 and finally there was a significant ratio of performing loans to restructured loans in the bank with a mean score of 3.14. The standard deviations of

1.30, 1.34 and 1.28 respectively indicated a high deviation in the level of portfolio quality. Financial management ranked the lowest in the performance parameters averaging 5-10% with an average mean score of 2.96 and a high deviation in financial management with a standard deviation of 1.36. Decrease in the bank's debt to equity ratio was ranked first with a mean score of 3.01 followed by increase in the bank's debt to equity ratio with a mean score of 2.96 and finally no change in the bank's debt to equity ratio with a mean score of 2.91. Additionally, the study found a high deviation in the level of financial management with standard deviations of 1.38,1.34 and 1.36 respectively. The aggregate results showed a mean score of 3.21 and a standard deviation of 1.36. From the aggregate results, it is observed that an average level of performance stood at the range of 10-15% annually. This may be attributed to the steady growth in the commercial banks leading to stiff competition as noted by Ngumi (2013), Ojokuku (2013), Choudhary (2013) and Mulonzi (2017). It was further noted that the performance varied across the commercial banks with a high standard deviation of 1.36.

Diagnostic Test Results

Diagnostic Tests were conducted on the data that was collected prior to actual analysis which focused on testing the assumptions of the multiple regression models. The diagnostic tests that were relevant to the study included test for linearity, normality, and multicollinearity.

Normality Tests

The study sought to establish if the data collected was normally distributed over the sample. This test was conducted through Histogram plot as well as Shapiro-Wilk and Kolmogorov-Smirnov tests for the dependent and independent variables. The obtained results from Shapiro-Wilk and Kolmogorov-Smirnov tests are shown in table 17.

Table 17

Test for Normality Results

	Kolmogorov -Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Transformational Leadership	.062	352	.002	.949	352	.000
Transactional Leadership	.074	352	.000	.985	352	.001
Authentic Leadership	.054	352	.014	.971	352	.000
Innovation	.072	352	.000	.971	352	.000
Performance	.083	352	.000	.961	352	.000

Source: Survey Data (2024)

Table 4.11 shows the significance level (P-Value) of the Shapiro walk test for Transformational leadership was 0.000, 0.01 for transactional leadership, 0.000 for Authentic Leadership, Innovation, and performance. For data that is normally distributed, Gujarati and Porter (2009) recommend that a P-value that is greater than 0.05 at 95% confidence level, the study shows that the variables were not normally distributed. However, the histogram plots and normal probability plot of the standardized residuals shown in Appendix V. The histogram plots revealed a normal curve while equally the probability plot of the standardized residuals approximated along a straight line showing a strong positive correlation.

Linearity Tests

This study adopted Field (2009) recommendation for detecting multicollinearity by examining the correlation coefficients between the explanatory variables. Correlation coefficient greater than 0.9 was considered significant. The results of correlation statistics are shown in Table 18.

Table 18

Correlations

		Transformational leadership	Transactional leadership	Authentic leadership	Innovation
Transformational leadership	Pearson Correlation	1	.317**	.625**	0.538
	Sig. (2-tailed)		0	0	0
	N	352	352	352	352
Transactional leadership	Pearson Correlation	.317**	1	.499**	.183**
	Sig. (2-tailed)	0		0	0.001
	N	352	352	352	352
Authentic leadership	Pearson Correlation	.625**	.499**	1	.419**
	Sig. (2-tailed)	0	0		0
	N	352	352	352	352
Innovation	Pearson Correlation	.538**	.183**	.419**	1**
	Sig. (2-tailed)	0	0.001	0	
	N	352	352	352	352

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

Source: Survey Data (2024)

Table 18 shows the correlation coefficients for all the independent variables. The correlation between transformational leadership and transactional leadership was noted to be 0.317, 0.625 for authentic leadership and 0.538 for innovation. The results also show that the correlation coefficient between transactional leadership and authentic leadership was 0.499 and 0.183 for innovation. Similarly, the results also show that the correlation coefficient between authentic leadership and innovation was 0.419. Based on the results obtained, it was evident that the correlation coefficients for all the independent variables were less than the correlation coefficient 0.9 recommended by Field (2013), implying that there was no evidence of multicollinearity between the independent variables. The results also showed that all the correlation coefficients had P-values for less than 0.05 meaning that they were all significant.

Multicollinearity Tests

The study also tested multicollinearity of variables using Tolerance and Variance Inflation Factors (VIF). According to Iacobucci et al. (2017), VIF values of greater than 10 or a tolerance value of below 0.1 indicate high levels of multicollinearity problem. The correlation coefficients results were consistent with VIF results for multicollinearity as shown in Table 19.

Table 19

Collinearity Statistics

	Collinearity Statistics	
Model	**Tolerance**	**VIF**
Transformational Leadership	0.609	1.642
Transactional Leadership	0.751	1.332
Authentic Leadership	0.508	1.967
Leadership and Innovation	1.000	1.000

a. Dependent Variable: Performance

Source: Survey Data (2024)

From the results in Table 19 above transformational leadership had a VIF of 1.642 with a tolerance of 0.609, transactional leadership had a VIF of 1.332 and a tolerance level of 0.751, authentic leadership had a VIF of 1.967 and a tolerance level of 0.508 while innovation had a VIF of 1.000 and tolerance level of 1.000. Since all the independent variables had VIF of less than 2, the study concluded that there was no presence of multicollinearity.

Multiple Regression Analysis

Hypotheses testing was done through multiple regression analysis. The results of the tests were interpreted through the adjusted R^2 values and P values at $P < 0.05$ significance level. The variables under study were regressed on performance indicators and a composite measure for all the variables computed to reflect overall variables. The hypothesis for direct relationships were first presented followed by mediated relationship hypothesis. The following hypotheses were tested in the respective order.

$H0_1$ Transformational Leadership has no significant effect on performance of commercial banks in Kenya.

$H0_2$ Transactional Leadership has no significant effect on performance of commercial banks in Kenya.

$H0_3$ Authentic Leadership has no significant effect on performance of commercial banks in Kenya.

$H0_4$ Innovation has no significant mediating effect on the relationship between leadership and performance of commercial banks in Kenya.

Test for Direct Effect Hypotheses

Multiple regression was conducted at 95 percent confidence level (=0.05) with performance as the dependent variable and leadership style as independent variable. The purpose of the study was to investigate the effect of leadership style on performance of commercial banks in Kenya. The empirical model was of the form:

$$\mathbf{PER_F = \beta_0+\beta_1 TL+\beta_2 TX+\beta_3 AL+ \varepsilon}$$

Where: -

PER_F	= Composite Index for Performance
β_0	= Constant
β_1, β_2&β_3	= Beta coefficients for the independent variables
TL	= Composite Index for Transformational Leadership
TX	= Composite Index for Transactional Leadership
AL	= Composite Index for Authentic Leadership
ε	= Error Term

The results of the regression are as shown in Table 20

Table 20

Regression for Leadership Style and Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.415[a]	.172	.165	.87724

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.609	3	18.536	24.087	.000[b]
	Residual	267.805	348	.770		
	Total	323.414	351			

Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		β	Std. Error	Beta		
1	(Constant)	.799	.404		1.978	.049
	Transformational leadership	.466	.118	.247	3.945	.000
	Transactional leadership	-.348	.076	-.259	-4.604	.000
	Authentic leadership	.457	.117	.267	3.902	.000

a. Dependent Variable: Performance composite
b. Predictors: (Constant), transformational leadership, transactional leadership, authentic leadership

Source: Survey Data (2024)

The results in Table 20 show the model fit, which establishes how the model equation fits the data. The correlation coefficient (R) is observed as 0.415, which means that there is a weak positive relationship between the independent variables and performance. The adjusted R^2 was used to establish the predictive power of the study model and it was found to be 0.165 implying that 16.5% of the variation in performance is explained by transformational leadership, transactional leadership, and authentic leadership. The remaining 83.5% of variation in performance is explained by other variables other than the ones in the model.

Secondly, the results in Table 20 also show the analysis of variance results for leadership style and performance and show a P value of $0.000 < 0.05$ which indicates that the regression relationship was significant in predicting how transformational, transactional, and authentic leadership styles affect performance of commercial banks in Kenya. At the same time the F statistic for F is 24.087 which shows that the overall model was significant and adequate to predict performance. Finally, from the results in Table 20 the regression model is summarized as follows.

Performance = 0.799+0.247TL-0.259TX+0.267AL+ ε

The results in Table 20 show that if all factors (transformational leadership, transactional leadership and authentic leadership are held constant, performance of commercial banks would be equal to 0.799. The results also show that holding all other factors constant, a unit change in transformational leadership increases performance by 0.247. Similarly, holding all other factors constant, a unit change in transactional leadership would lead to a movement in opposite direction in performance of 0.259 and a unit change in authentic leadership would lead to an increase of 0.267 in authentic leadership.

According to the magnitude of each of the variables in predicting performance, the findings indicated that authentic leadership had the highest effect on performance followed by transformational leadership while transactional leadership had a negative influence on performance. All the variables were found to be significant in predicting the performance of commercial banks sine they had P-values of less than 0.05. Similarly, all the factors had their calculated t-statistics higher than the critical t-value of 2.776 where authentic leadership had a t-statistic of 3.902 and transformational leadership had 3.945 implying that it was significant in predicting performance. Transactional leadership, however, had a t-statistic of -4.604 implying that it was significant in negatively predicting performance.

Test of Hypothesis One

The first objective of the study was to establish the effect of transformational leadership on performance of commercial banks in Kenya. The corresponding null hypothesis was that transformational leadership has no significant effect on performance of commercial banks in Kenya. The results in Table 20 show a standardized beta coefficient of $\beta = 0.247$ and P value of 0.009. The results show that the standardized beta coefficient for transformational leadership was 0.247 with a P-value of 0.000 which implies that with all factors held constant, a unit change in transformational leadership will lead to an increase in performance by 0.247. It is observed that the p-value was less than 0.05 significance level. The null hypothesis was rejected since the p-value was less than 0.05. This means that transformational leadership has a significant positive effect on performance of commercial banks in Kenya. The study: therefore, concluded that transformational leadership was a significant determinant of performance of commercial banks in Kenya.

The conclusion on this hypothesis was explained based on several points, namely the demographic characteristics of the respondents, the descriptive statistics of the independent variable, qualitative data results, previous research, and underpinning theories. In terms of demographic characteristics, the study reported that approximately 99% of the respondents were in the category of senior and middle level managers whose role in the leadership of commercial bank requires them to tap on their followers' motives to better arrive at the common objective for both leaders and followers. The variable sought to establish the extent to which transformational leadership style was practiced driving the followers to better outcomes.

The demographic data reported earlier was found to have captured important aspects the study found suitable to explain the findings on hypothesis one touching on the levels of management hierarchy of the respondents and the ownership of the sampled banks. Regarding the management levels of hierarchy, the study observes that the respondents were obtained from managers at the middle and senior levels who had work experience in the sector for over 10 years. In terms of leadership, this would imply that the managers had a good understanding of the industry, the context of their work operation and the leadership imperatives required to steer their banks ahead. Thus, looking at the data obtained from the interviews, this becomes clear in terms of what the leaders emphasized in their work to bring about a climate for transformational leadership to operate and contribute to the performance of the banks. Informant Mr. G and Ms. D pointed out that:

> *"Teamwork improves and promotes a good relationship between and among staff. This leads to improved performance for the whole team. It also leads to better and improved working relationship between you and other staff and among the staff themselves. As staff in a similar level, you should ensure that you embrace good relationship by treating*

> *people equally. Everyone has a role to play. You must ensure there is universality in the way you treat people. You should treat people equally. No one should be favored over the others. And no one should feel like they cannot reach out to you. If this happens, it may interfere with the relationship."* (Mr. G – Manager KII)
> *"We believe in teamwork and expect everyone regardless of the position to work towards a common goal. We work as a team, and we ensure all the employees are respected and their culture are preserved as per the rules and regulation within our premises."* (Ms. D – Manager KII)

The results from demographic data compared favorably with the manner in which Transformational leadership attributes were practiced among the banks. The descriptive statistics on the behavior of the dimensions of TL showed that the aspect of Idealized influence was clearly understood and practiced through areas of the leaders' directing followers towards bank's mission (M= 4.24), promoting team spirit (M= 4.19) and promoting followers' self-esteem (M=4.23).

In terms of ownership of the banks, the study reported that local private commercial banks had the highest proportion at 46.9%, followed by foreign commercial banks at 41.3% while local public commercial banks represented 11.9% of commercial banks in Kenya. The nature of these banks is such that they are strategically oriented and place a significant role on leadership at all levels of hierarchy. Their missions are well stated, vision very ambitious and fully aware of the context of operation as majority of the respondents (91.8%) had worked in the commercial banks that had operated in Kenya for over ten years, so that what leadership should contribute to is clear. An important part of the leaders is to create a company posture strongly supported by an empowered workforce that can easily adapt to the experienced change in the environment. The study relied on the transformational leadership theory as one of the theories to explain phenomenon since the conceptual nature of TL indicates how this posture is sustained. According to Madanchian, et al. (2016), transformational leaders are classified as being optimistic, trustworthy, positive leaders who encourage teamwork and promote innovation.

An outstanding aspect of transformational leadership contributing to this agenda is Inspirational Motivation. In this study it was reported that it was practiced by the leaders in terms of three pillars; namely, expressing confidence on achievement of goals (M=4.29) as well as both expressing optimism about the future (M=4.24) and articulating a compelling vision for the future (M=4.24). The qualitative data supported the manner of the practice as reported by Mr. X who observed that:

> *"Organizational leadership either motivates or discourages staff. It can make them comfortable or uncomfortable. This touches on the customers as well. If the leadership is good, it promotes initiative, and the staff are motivated by being appreciated and noticed. If the leadership is by example the staff are motivated to follow suit."* (Mr. X – Manager KII)

Intellectual stimulation was observed to have a role in contributing to the posture through three areas of the leaders seeking out different approaches to problem solving (M=4.17), getting followers to look at problems from different angles (M=4.09) and re-examining critical assumptions to know whether they are appropriate (M=4.03). Individualized consideration revolved around one theme of helping followers develop their strengths (M=4.07) which was indicative of an organization that embraces an adaptive and collaborative culture. This qualitative data supported this by pointing out that:

> *"It's an open-door policy. Managers seek the staff's opinion, and the staff feel free because they are included in decision making. However, this varies from branch to branch. But generally, managers listen to their staff."* (Mr. K – Manager KII)

> *"Our culture is about interaction with one another and the team members. Leaders must embrace communication in decision-making. Decisions which you know as a leader, everybody is looking up to you so the kind of decisions you make are going to influence your performance. So that culture of embracing the teamwork, communicating with people, interacting a lot, it gives people confidence and openness and builds positive attitude in the staff and promotes performance."* (Ms. L – Manager KII)

Some of the key informants of the study, additionally underscored the importance of organizational culture in creating a conducive environment for people to work. They felt that since they embraced a collaborative and adaptive culture, people felt at ease and were able to offer maximum productivity as expressed by respondent Mr. M:

> *"Organisational culture plays a key role in whether the environment in which you work is healthy. In our organisation the interaction between leaders and other staff including subordinates is good and therefore it makes a greater contribution to team communication and encourages us to accomplish the mission and objectives assigned by the organisation. Together we have always strived to achieve more."* (Mr. M – Manager KII)

The qualitative data equally gave useful insight on the manner that transformational leadership was able to make its contribution through democratic, participatory, and collaborative approach towards leadership. This came out clearly from the expression by Mr. K who noted that:

> *"We have coworker relationship, we have team member relationship, we have work friends and then there's also the managers relationship. This is because, maybe you are a mentor for some of the staff. For example, the relationship between me as a manager and my junior staff depends on how free they are with me. Most of them are free with me and they can share issues with me. However, this is not happening with other managers. A bond must be created that will allow people to share issues with you. For those who are not free with me, they normally communicate through some else. There are those who find me approachable and very open, but others have a different opinion of me.*

> *That is what I am calling a coworker relationship. We only relate because we work together. Then we have team member relationship. This is perhaps the highest level at the managerial level."* (Mr. K – Manager KII)

In comparison with previous research, the findings were compared with the studies by Ojokuku et al. (2012), Gachingiri (2015), Yildiz et al. (2014) and Nazim et al. (2017). The study by Ojokuku et al. (2012) focused on commercial banks in Nigeria and found that transformational leadership style positively impacted organizational performance as it offers employees a value system and a sense of belonging, providing them with skill building as in addition to participation on making decisions. Gachingiri (2015) study was conducted in the United Nations Environment Programme (UNEP) in Kenya and concluded that transformational leadership positively influences organizational performance as the combination of its four constructs lead to high performance beyond expectations (Kolzow, 2014). This is because the leadership style focused on follower development and paid attention to their needs. Yildiz et al. (2014) conducted a study in the service and service industry in Turkey and found that transformational leadership yielded a higher positive effect than transactional leadership on performance and Nazim et al. (2017) conducted a study in the pharmaceutical industry in Pakistan and established through correlation analysis that there exists a positive and significant relationship between transformational leadership and organizational performance and that, when transformational leadership is adopted, organizational performance can be increased. Even though the current study was in a different sector, the findings are comparable to those of earlier researchers.

In view of these, the findings on hypothesis one provides important contributions to the knowledge on leadership styles in several ways; first, the studies have been undertaken in other contexts outside the Kenyan/ African settings thus reflecting different macro-economic conditions. The study sheds light on the need for understanding of context in application of transformational leadership in two forms; first, the internal environment of the organization particularly the culture, mission, vision and the relationship between leaders and followers; second, the external in terms of the nature of the industry which reveals its unique characteristics. Additionally, the study findings contribute to the body of knowledge on leadership studies by calling for a situational approach to the application of TL; therefore, arriving at the conclusion that situational leadership is relevant in the application of TL and this contributes to the new knowledge for leaders in organizations to apply the constructs of TL taking into account the internal and external context.

Test of Hypothesis Two

The second objective of the study was to establish the effect of transactional leadership on performance of commercial banks in Kenya. The corresponding null hypothesis was that transactional leadership has no significant effect on performance of commercial banks in Kenya. A regression model was run, and the results are shown in Table 20. The results show that the standardized beta coefficient for transactional leadership was -0.259 indicating that if all the factors are held constant, a unit change in transactional leadership would lead to movement in the opposite direction in performance by 0.259. The P-value was 0.000 and being less than 0.05 significance level, the null hypothesis was rejected meaning that transactional leadership has a significant effect on performance of commercial banks in Kenya. The coefficient of transactional leadership was negative and therefore it can be concluded that transactional leadership has a significant movement in the opposite direction on the performance of commercial banks in Kenya. This implies that as leaders consistently apply transactional leadership, performance levels decrease.

The findings on this hypothesis were explained based on demographic characteristics of the respondents in the study, the descriptive characteristics of the independent variable, qualitative data results, previous research, and underpinning theories. From the demographic characteristics of the respondents earlier reported, important aspects were revealed that the study found suitable to explain the findings on hypothesis two regarding the management level of most of the respondents (figure 7) and the number of years worked in the banking industry (figure 7) as well as the bank ownership (table 9).

Regarding the level of management, the study observed that of the total 352 respondents in management, 286 respondents were mainly middle level managers in the banking industry in Kenya based in the strategic business units. The roles ranged from branch managers, relationship managers and operations managers who had served in the banking industry for a period of between 1-5 years. This indicates that the managers had a good understanding of how their leadership role influences performance. An important aspect that the study found suitable to explain hypothesis two was that of the focus and orientation of the managers at the middle level and those at the top forming the senior management in the banks.

The middle level managers have a key role as drivers of performance, and they, therefore, are more likely to practice a hard approach to attain performance. The soft-hard models of human resource management are differentiated on the point of focus which may either be placed on the human vessel or other resource. While the soft approach is linked to the concept of employees who are highly committed to work, hard approach focuses on the quantitative aspect of managing people as a headcount resource and the human resource policies and practices are closely associated to the organization's objectives. The hard approach therefore focuses on implicit pressures, coercion, close monitoring, and controls as opposed to the soft approach that emphasizes on being tolerant on the employee with the aim that they will cooperate and be productive (Truss et al., 1997). The evidence is found in the descriptive statistics on the contingent rewards construct with three main components namely, expressing satisfaction when followers meet expectation (M=4.20), making clear the expected rewards when targets are met (M=4.0) and providing followers with assistance only in exchange for their effort (M=3.98). This can be pointed to the fact some managers heavily rely on structures and authority to offer leadership. In the absence of structures and authority that comes with the structures, their ability to offer leadership is superseded due to weakness in leadership since there is lack of inspiration as contrasted with transformational leadership where the leader engages with the followers in a way that creates a connection that increases motivational and morality levels for both him and the followers (Northouse, 2021). This contrast explains the movement in the opposite direction of transactional leadership on performance as there is little support for learning. This came out clearly from the comment made by informant Mr. W about the approach adopted by his immediate supervisor. He indicated that:

> *"To the subordinates, she is firm in enforcing adherence to organizational rules. To the colleagues, she is keen to make the relationship work in her favor." (Mr. W – Manager KII)*

Where bank ownership is concerned, a total of 310 out of the 352 respondents worked in privately owned banks comprising local private commercial banks, (165) and foreign commercial banks (145) where the main orientation is the profit motive regardless of difficult circumstances. The senior managers whose main role is strategy formulation and monitoring and control where they identify gaps in performance, exert pressure on the lower levels to bridge the gap. They, therefore, rely on middle level managers on the shop floor to drive performance resulting in high levels of pressure from the top to lower management cadres; thereby, inviting the application of a hard based approach as opposed to a soft based approach. These level of managers in the banking sector find themselves in a most unenviable position where as much as they would want to cultivate relationships with their subordinates, they are also obliged to ensure that targets and goals are met by the same subordinates and sometimes colleagues. Consequently, they must apply a delicate balancing act where they are not too democratic as to invite chaos but also not too authoritative as to instill fear and contempt. Laissez faire is not an option in services sector such as the banking sector and therefore, transactional leadership becomes a default style where performance management is a critical aspect of the leaders' mandate. The transactional leader motivates employees to self interest in their work as their main role is to reward good performance and punish poor performance (Nazim et.al, 2017).

This compares favorably with the responses from interviewed respondents who equally established that profit driven organizational culture strongly influences the leadership style adopted by the managers in the banks. Since the banks emphasize and practice these aspects to a moderate extent, it is possible for the variable to have a movement on the opposite direction on performance especially when argued from the extrinsic motivation behavior which does not offer much in terms of motivating and inspiring the employees to go beyond their day-to-day tasks. The result of this leadership style is that employees may fail to trigger intrinsic motivation from the work itself and get complacent; thereby, performing at mediocre levels just to meet the minimum expectations of their roles to avoid penalties (Mulonzi et. al, 2017). Many of the interviewed leaders were also cognizant of the fact that poor relationships at the workplace can easily lower productivity and performance. They were therefore of the opinion that healthy relationships should be cultivated and any existing gaps in relationships should be addressed as soon as they come to light to ensure that any decrease in performance as transactional leadership is practiced is averted as informant Ms. Q and Mr. V opined.

> *"We always make sure there's a good relationship between all the staff and we make sure those gaps are very limited because if the gaps are there the staff won't perform and they won't deliver."* (Ms. Q – Manager KII)
> *"When the relationship is good, people feel the urge to work hard, they are free with you, they will tell you what you should not do which can hurt the company, which can bring damage to the company. So, you see when you have a healthy relationship, you get the opportunity to learn about things that may affect performance negatively. Therefore, you can take any corrective action before the situation escalates. Relationships make people feel recognized, they feel respected. They can approach any manager and discuss any issue they may have. This interaction makes it easy to deal with issues as they arise. This contributes positively to organizational growth and productivity."* (Mr. V – Manager KII)

The active management by exception, construct of transactional leadership demonstrated the opposite of a learning culture where the leader focused their attention on irregularities, mistakes, exceptions, and deviation from standards (M=3.50). The execution of the leadership mandate by the middle level managers necessitated that they are in close contact with their followers in their leadership roles at the different levels as they are mainly responsible for implementing the bank's strategy aimed at the achievement of the set goals for the common good of all stakeholders. Driving strategy involves using set out procedures and policies as the interviewed leaders pointed out that it affected the problem-solving techniques. The informants opined that when it comes to problem solving, they appreciated that it was easier to use standard operating procedures to provide solutions for frequently occurring problems and ensure they are not repeated as voiced by one of the informants:

> *"Most of the times my leader takes a very clear and detailed step that solves the problem from the source and does not allow deviation from the procedures in order to avoid reoccurrence of the problem."* (Mr. F – Manager KII)

Additionally, the construct of passive management by exception also worked negatively in problem solving as the managers failed to interfere unless problems become serious (M=3.15). The informants opined that regarding problem solving, some managers underscored the importance of allowing staff members to solve the problems on their own and only offered support when the situation escalated. As much as this may sound empowering on the part of staff solving the problem, it may inadvertently lead to serious consequences if the issue is not addressed in time. Consequently, the manager must be very keen not to allow the situation to escalate beyond control; thereby causing more harm than providing a learning opportunity for the staff. It is a delicate balancing act of neither coming in too early nor coming in too late. Informant Ms. N had this to say:

> *"My leader allows the employees solve their own mistakes in their own way and only interferes when needed. He however follows up until the mistake gets corrected."* (Ms. N – Manager KII)

Conceptually, the study relied on the propositions from the Behavioral Theory whose focus is on the inherent nature of the leaders and not their actions and proposes that leaders employ two types of behaviors- task or relationship behaviors (Northouse, 2021). Its focus is on how leaders combine these behaviors with an aim of exerting influence on their followers. It originated from studies undertaken at Ohio State and the University of Michigan and Blake as well as Mouton's Managerial grid (McWhorter 2011; Northouse, 2021).

Blake and Mouton (1964) came up with five themes based on the leader's behavior with two blocs; one that focuses on people and the other that focuses on tasks known as the leadership grid (Northouse, 2021). The value of the grid was to provide leaders with a means of effectively communicating to followers, while paying particular attention to their leadership style (Kulzow, 2014). Out of the combination of these behaviors, there are five major emerging styles; authority-compliance, country club management, impoverished management, middle-of- the road management and team management. Team style is the superlative leadership behavior as it combines a high focus on people with a high focus for the task (Kulzow, 2014; McWhorter 2011; Northouse, 2021). The style approach brings in a fresh dimension to leadership studies in examining leadership behaviors in varied situations (McWhorter, 2011). The study sought to address one of the concerns of this approach that research has not associated tasks of leaders with certain outcomes such as productivity or performance (Northouse, 2021) by considering one task-oriented style; transactional leadership. There was evidence from the sampled respondents that the managers practiced transactional leadership due to the pressure to perform at high levels as per the strategy formulated by the executive and senior managers. The bonuses and salary increments were also based on meeting set targets as is common practice in the banking industry. Informant Ms. J had this to say:

> *"The performance of my branch is monitored in a daily dashboard by my head of department and consequently I also ensure that my staff meet their daily targets. Performance appraisal season in the bank is a very crucial and tense process as the bonuses and salary increments are tied to it."* (Ms. J – Manager KII)

When the findings of the study are compared with previous research from Khajeh (2018), Ojukuku et al. (2013), Liu and Zheng (2011), Koech and Namusonge (2012) and Yildiz et al. (2014) reveal mixed results. Khajeh (2018) conducted the study in 20 randomly selected organizations in the United Arab Emirates and found that transactional leadership negatively impacted organizational performance. The conclusion was that transactional leadership did not stimulate employees' performance and, it additionally encouraged high labor turnover rates among the employees as it did not instill a sense of belonging. Ojokuku (2013) conducted a case study of Nigerian banks to determine the impact of leadership on organizational performance and found that there was a negative correlation between transactional leadership and performance. Further, Liu and Zeng (2011) also undertook a study in Chinese culture only who are more open to transactional leadership style due to their national culture of communism and found that transactional leadership is negatively associated with team innovativeness.

The findings of this study; however, do not agree with findings of Koech and Namusonge (2012) who conducted research in state corporations in Kenya where bureaucracy and structures mainly thrive, unlike in commercial banks in Kenya which are mainly privately or foreign owned. The conclusion was that transactional leadership positively impacted organizational performance. This was mainly due to the 'carrot and stick' approach that served as a helpful motivator to the followers to attain their goals as the constructs of contingent rewards and active management by exception, had a medium positive correlation with performance as was also observed in the study with contingent rewards which had a high extent and active management by exception, and which was practiced to a moderate extent. Yildiz et al. (2014) also conducted a study on workers in service (event and communication agents) and industry (textile manufacturing) sector in Turkey which is mainly task oriented unlike the professional nature of banking industry workers. They concluded that transactional leadership impacts organizational performance positively but only after transformational leadership and innovativeness.

The findings in hypothesis two contribute significantly to leadership studies in various ways. First, they reveal a close link between leadership and human resource practice since the human resource orientation embraced by the leader will determine whether the leader will have a people orientation (soft approach) or performance orientation (hard approach). Even though the previous study was in a different sector, the findings are comparable to those of previous studies which reported that although transactional leadership may be used to improve performance to some extent, it also can lead to negative effects since it serves as an extrinsic source of motivation which emanates from the hard approach to management of human resources, and this may not sustain high level of performance in the long run.

The previous studies by Khajeh (2018); Koech and Namusonge (2012); Liu and Zeng (2011); Ojokuku and Sajuyigbe (2013); Yildiz et al. (2014), indicated that there was a gap in conducting the research which only sampled management teams and did not consider followers. Case study design was also used mostly to provide in depth analysis in qualitative studies which is lacking in the quantitative study presented, and in other cases, the studies also mainly made use of quantitative data only which reduced the scope and applicability of the research. Gaps were also revealed in the sectors in which the studies were conducted and there was failure to demonstrate the relationship existing between transactional leadership and performance. This study advances the level of understanding of the relationship between transactional leadership and performance using commercial banks in Kenya by offering a clearer operationalization of the construct by introducing the behavioral approach to leadership. Transactional leadership is a task-oriented style where the behavior of the leader is programed by the need to meet targets in order to benefit from rewards such as salary increments and bonuses and avert punishment. The study also provides evidence of the findings obtained to be generalized despite the unique characteristics of the study.

Test of Hypothesis Three

The third hypothesis of the study sought to evaluate the effect of authentic leadership on performance of commercial banks in Kenya. The formulated null hypothesis was that authentic leadership has no significant effect on performance of commercial banks in Kenya. To test this hypothesis a regression model was run, and the results summarized in Table 20. The results show that the standardized beta coefficient for authentic leadership was 0.267 with a P-value of 0.000 which implies that with all factors held constant, a unit change in authentic leadership will lead to an increase in performance by 0.267. It is observed that the p-value was less than 0.05 significance level. The study therefore rejected the null hypothesis and concluded that authentic leadership has a significant determinant of the performance of commercial banks in Kenya.

The researcher in an attempt to explain the findings in H03 observed that the conclusion could be justified, based on some of the demographic attributes of the respondents, the characteristics of the independent and dependent variables in the hypothesis, qualitative data and theoretical postulates of the supporting theory. Where demographic characteristics earlier described are concerned, several aspects were revealed that would be able to support the findings on $H0_3$ regarding the number of years the bank had operated in Kenya, the years of experience and the gender as well as management level of the respondents.

The demographic data on the banks regarding the duration that the banks had operated in Kenya revealed that they had been in existence for a period of more than 10 years (92%). Within the 10 years the macro-economic environment had been characterized by turbulent seasons such as closure of banks, election cycles and the COVID-19 Pandemic. Moreover, within these 10 years, the managers were still required to perform to meet the investors' expectations; hence, we find a justification for the exercise of AL in influencing performance positively. Additionally, most of the respondents indicated that they had worked in the commercial banks for between one and five years which implies that they understood the importance of genuine and trustworthy leadership in driving strategy and performance, especially in the dynamic operating environment banks find themselves in.

This explains why the respondents practiced authentic leadership as it has a positive effect on performance and was supported by the qualitative data; whereby, some of interviewed leaders were also able to appreciate changes that have taken place as far as leadership and management in the banking sector is concerned. They noted that in the past, there was a lot of bureaucracy and complexity in leadership and management in the banking sector. They reported, that in the past it was almost impossible to get an opportunity to interact with the executive and senior management personnel in the banks. However, as leadership has evolved this is no longer the case and even the junior staff as well the customers can get an audience with the managers with ease. This has created a cordial and harmonious relationship between and among the managers on the one hand and the customers and the junior staff on the other. In effect, it has created a conducive work environment that has enhanced performance as expressed by informant Mr. H.

> *"Initially there were some complex structures in the banking system where the people sitting in the managerial positions were never available. However, in my organization I have made sure that we from the Executive Management are able to interact with one another and even with our staff in the lowest job cadres. The junior staff are also able to reach out to the executive leadership and share their opinions. We share ideas on a weekly basis. So, the staff, both the managers and the subordinates are able to interact. This has helped us a lot and has improved our performance as a bank."* (Mr. H – Manager KII)

Secondly, the demographic data on the attributes of the respondents indicated that they mostly comprised middle level managers (81%) who were either in the categories of branch managers, relationship managers and operations managers. The mandate of these managers by virtue of their job description is that of driving competitiveness of respective business units or functional areas; thus, it would be expected they spend most of their time with their followers driving and implementing strategy to achieve business performance. This would mean that problem solving was an inevitable part of their day-to-day operations as the respondents agreed that the leadership practice involved balanced processing which is a construct of authentic leadership (M=3.94). Balanced processing allowed the leaders to collaboratively think through and consult with others to come up with a solution (M=4.04) to the problems, listening closely to the ideas of those who disagree with them (M=3.94) and seeking the follower's opinions before making up his/ her mind (M=3.93) which underscored the role of effective communication in solving organizational problems and challenges. Informant Mr. L had this to say:

> *"Well, so when it comes to problem solving as a manager, I make sure that I include the staff and we discuss and come up with the solutions to the problems. However, if it's a minor issue, then I may implement the solution myself and then guide the employees through the solution process."* (Mr. L – Manager KII)

In addition to the above description, the researcher found that certain aspects of the nature of AL could be explained using the gender lens. The results from the descriptive statistics show that the male respondents were 59%, while female respondents were 41% indicating gender equity at almost 50-50 levels. When the results on gender were cross tabulated against the management levels, a total of 26 managers were in senior management with 2 being in executive against 40 men in senior management and 3 in the executive. The feminine gender by nature tends to be more consultative and would likely embrace the same attributes that are characteristic of AL. In a work environment where they are adequately represented, one expects their influence on the practice of leadership. The results imply that the female presence in senior management is indicative of a consultative leadership style as portrayed by the self-awareness construct of authentic leadership where the leaders seek the opinions of others before making decisions (M=3.88), and internalized moral perspective where the leaders allow their morals to guide their actions (M=3.95), and actions reflect their core values (M=3.90). The authentic leadership construct of balanced processing was also evidence of a consultative leadership approach with the leaders listening carefully to others before making decisions (M=4.04), listening closely to ideas of those who disagree with them (M=3.94), seeking others' opinions before making up their mind

(M=3.93) while not emphasizing their own point of view at the expense of others (M=3.83).

In terms of theoretical anchorage, the researcher explained the findings on H03 using the postulates of AL theory. This theory posits that authentic leaders are deeply aware of their thoughts and behaviors and the follower's view of them. Their followers perceive them as projecting a consciousness of their personal values as well as their teams, being knowledgeable of their strengths and weaknesses and their effect on their contextual setups (Avolio et al., 2003). These attributes are suited for application in the banking sector which by nature calls for leaders who lead from their beliefs and values, morals, and principles (Avolio & Luthans, 2006). These are indispensable to the banking system because of the role it plays as a financial intermediary based on public trust. The authentic leadership construct of internalized moral perspective calls for leaders who are guided by their morals (M=3.95), act in ways that reflect their core values (M=3.90), while not allowing group pressures control them (M=3.88). For an individual to survive and grow in the banking industry, the key attributes required are trust, integrity, and values whereby the authentic leader sets the stage and breeds authentic followers guided by the principles of reliability and trust which in turn is welcomed among customers. The result is that it yields high performance as there is increased business resulting from an improved customer satisfaction index (M=3.22).

Self-awareness as an attribute of authentic leadership revolved around three themes: the leaders seeking followers' opinions before making up their own mind (M= 3.88), which also meant involving followers and coming up with workable solutions to problems while the leader also being aware of their greatest strengths (M=3.76), and weaknesses (M=3.27). This was aptly expressed by informant Ms. R:

> *"No one is perfect. Even those who have been trained, even people with PhD, professors, they encounter problems, they make mistakes daily. How do we approach problems? We do it in different ways or use different methods. For example, sometimes we do team building. Team building in the sense that we make sure people are working together, internal consultation and borrowing from one another's knowledge and ideas and experiences. Good communication is also key in solving problems. If there is a problem in the organization and you don't communicate, people assume that everything is okay. But if you communicate, you raise the alarm and the chances of repeating the same mistake are eliminated, but if you don't communicate, the same mistake will occur again and again."* (Ms. R – Manager KII)

Relational transparency as an attribute was only moderately practiced by the managers (M=3.67) with only one emerging theme of the leaders openly sharing their feelings with others (M=3.74). The key informants expressed that their banks supported an adaptive and collaborative organizational culture that allowed for free and seamless interaction between and among staff. Further, some also felt that their institutions exhibited relationship-oriented culture where the staff treated and viewed each other as family. Some leaders also reported that to ensure that all staff freely interact, some informal gatherings at the workplace were also incorporated as part of their routine such as sharing a meal and drinks at the end of the week, while others are at liberty to conduct prayer sessions together. The managers felt that in addition to moral and spiritual nourishment, such activities also helped to strengthen the bonds and the relationships among the staff. This in turn helped the staff to be free with one another as they share issues that they may feel are not working out well in the organization. This was also a good opportunity that the managers also took to interact even with the lowest cadre employees such as the junior officers and support staff. This inadvertently reduced the gap and the fear that may exist among the subordinates as expressed by informant Ms. P.

> *"We always try to minimize the gaps. We make sure the relationship is good. Every morning, we make sure we assemble and pray together and sing together. That is, apart from worshipping God you also mend relationships, we make the relationships strong. The relationship must be there. Let's say teamwork is very sovereign. During these meetings we share ideas every week as we interact with everybody, even the people are giving us services like the cleaners. They may have noticed one or two things that you did not notice. And they share their observations during such interactions."* (Ms. P – Manager KII)

Lastly, the findings on H03 were explained in comparison with previous research. The relevant research were those done by Darvish and Rezaei (2011) Datta (2015), Lyubovnikova et al. (2017), Ribeiro et al. (2018); Ridderhoff (2013) and Sanda and Arthur (2017). A study conducted by Ridderhoff (2013) in a military setting in Netherlands on the influence of authentic leadership on team performance found that AL positively influences team performance even in strenuous conditions as the inherent characteristics displayed by the authentic leaders are more pronounced in stressful situations. Datta (2015) equally found that the scope of a leader's effectiveness in varied areas such as the performance of the leader, ability to satisfy the needs of the followers and good progress in the value of work produced is because of AL. Another study by Sanda and Arthur (2017) in the telecommunication of Ghanaian economy on the relational impact of authentic and transactional leadership styles on employee creativity found that authentic leadership had a positive impact. This also agrees with Lyubovnikova et al. (2017) who concluded that the construct of AL collectively shapes team behavior through team reflexivity and positively predicts performance, as well as Darvish and Rezaei (2011) who revealed that teams with leaders who depicted the constructs of authentic leadership; self-awareness, self-regulation, balanced processing, and relational transparency had more satisfied and committed employees who were able to perform better at their jobs. Another study by Ribeiro et al. (2018) also concluded there is a positive relationship between AL and performance and mediated by affective commitment.

Previous studies by Ridderhoff (2013); Datta (2015); Sanda and Arthur (2017); Lyubovnikova et al. (2017); and Darvish and Rezaei (2011) indicate that there has been gaps in the way the variable was operationalized as some used other mediating variables, gaps in the sectors in which the study were conducted in the military, education, telecommunication which differ in application of authentic leadership. Hence, results may not apply favorably in the banking sector. Other studies were based on theoretical review; thus, lacking empirical support as well as the use of convenience sampling which limits the generalizability of results especially when online surveys are used as important respondents can be left out. The findings in hypothesis three contribute to the body of knowledge in commercial banks through revealing the evolutionary nature of authentic leadership due to contextual experiences. Therefore, the context it is applied in determines its suitability especially in cases where the operating environment is dynamic and riddled with adverse conditions. It is coming out strongly from the findings that, AL embraces the attributes of collaborative leadership as it is critical for the leaders to involve followers in the practice of AL to drive performance.

Test of Hypothesis Four

The fourth objective for this study was to assess the mediating effect of innovation on the relationship between leadership style and performance of commercial banks in Kenya. The associated hypothesis was formulated as innovation has no significant mediating effect on the relationship on the relationship between leadership style and performance of commercial banks in Kenya. To test this hypothesis, Baron and Kenny (1986) four step approach for testing mediation effect was used.

Step One: Regressing Performance on Leadership style.

In this step performance is regressed on leadership style to test for Path A as shown in Figure 2. The results are shown in Table 21.

Table 21

Step One: Regressing Performance on Leadership style.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.207[a]	.043	.040	.94049

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.834	1	13.834	15.640	.000[b]
	Residual	309.580	350	.885		
	Total	323.414	351			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.649	.401		4.110	.000
	Leadership_composite	.414	.105	.207	3.955	.000

a. Composite: (Constant), Authentic leadership, Transactional leadership, Transformational leadership

b. Dependent Variable: Performance composite

Source: Survey Data (2024)

The results in Table 21 on the regression of performance on leadership style show an adjusted R Square ($AdjR^2$) of 0.040 implying that the model was able to predict performance of commercial banks in Kenya by 4%. The remaining 96% of the variation in performance of commercial banks in Kenya are explained by other factors other than leadership style.

From the results in Table 21, it is also observed that the regression relationship between performance and leadership was significant with a probability (P) value of 0.001 <0.05. In addition, the F-statistic for the model was observed as 15.640 which is greater than the F-critical value of 3.50. The study thus concludes that leadership style was significant in predicting performance.

Finally, the results in Table 21 show a standardized beta coefficient of 1.649 with a P- value of 0.000. Since the P-value was observed to be less than the significance level of 0.05, leadership style was found to be a significant predictor of performance. The model was summarized as follows:

$$\mathbf{PER_{F} = 1.649+0.207L_{S}+ \varepsilon}$$

Step 2: Regressing Innovation on Leadership style

In this step, leadership style was regressed on innovation to test for path B as shown in Figure 3. The results are shown in Table 22.

Table 22

Regressing Innovation on Leadership style

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.444[a]	.197	.195	.54270

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	25.258	1	25.258	85.759	.000[b]
1	Residual	103.084	350	.295		
	Total	128.343	351			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	1.955	.232		8.441	.000
1	Leadership composite	.559	.060	.444	9.261	.000

a. Predictors: (Constant) Leadership composite
b. Dependent Variable: Innovation composite
Source: Survey Data (2024)

The results in Table 22 show an adjusted R square of 0.197 implying that leadership style predicted 19% of the variations in innovation. The study also conducted the analysis of variance to determine the significance of the model and it was also noted that the model had a significance level of 0.000 and an F-statistic of 85.759. Since the P-value was less than the significance level of 0.05 and the F-statistic greater than the F-critical of 3.50, it is concluded that the model was significant in predicting innovation. The coefficients for the variables are also shown in Table 22. It was found that the standardized coefficient for leadership style was 0.444 with a P-value of 0.000. From the results it is concluded that leadership style is a significant predictor of innovation since the P-value is less than the significance level. The regression model is summarized as follows.

$\mathbf{Inov} = 1.955+0.444L_S+ \boldsymbol{\varepsilon}$

Step 3: Regressing Performance on Innovation

In this step, performance is regressed on innovation to test for path C as shown in Figure 3. The results are as shown in Table 4.17 and 4.18.

The model summary for the regression model was as shown in Table 23.

Table 23

Regressing Performance on Innovation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.382[a]	.146	.144	.88826

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	47.261	1	47.261	59.899	.000[b]
	Residual	276.153	350	.789		
	Total	323.414	351			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.623	.339		1.835	.067
	Innovation composite	.634	.082	.382	7.739	.000

a. Predictors: (Constant), Innovation composite

b. Dependent Variable: Performance composite

Source: Survey Data (2024)

The results in Table 23 show an adjusted R square of 0.144 meaning that innovation was able to predict14.4% of the variations in performance of commercial banks in Kenya. In addition, the study also conducted the analysis of variance to determine the significance of the model and show that the model had an F-statistic of 59.899 which was found to be greater than the F-critical value of 3.50. The P-value for the model was 0.000. Since the P-value was less than the significance level (0.05), the study concluded that innovation significantly affected performance of commercial banks in Kenya. The coefficient results were as shown and indicated that the standardized coefficient for innovation was 0.382 with a P-value of 0.000. From the results it is concluded that innovation is a significant predictor of performance of commercial banks in Kenya since the P-value is less than the significance level at 95% confidence level. The regression model was summarized as follows.

$\mathbf{PER_F} = 0.623 + 0.382\ \text{Inov} + \boldsymbol{\varepsilon}$

Step Four: Regressing Performance on leadership style and Innovation.

Finally, performance is regressed on leadership style and innovation to test path AI as shown in Figure 3. The results are as shown in Table 24.

Table 24

Regressing Performance on leadership style and Innovation

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.370[a]	.137	.132	.89441

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.227	2	22.113	27.643	.000[b]
	Residual	279.187	349	.800		
	Total	323.414	351			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.588	.419		1.404	.161
	Leadership composite	.110	.111	.055	.992	.322
	Leadership and Innovation composite	.543	.088	.342	6.164	.000

a. Dependent Variable: Performance composite
b. Predictors: (Constant) Leadership composite
Source: Survey Data (2024)

The results in Table 24, show an adjusted R square of 0.132 which means that both leadership style and innovation were able to predict 13.2% of the variations in performance of commercial banks in Kenya. The ANOVA analysis results also shown a significance level of 0.00 which is less than the P-value of 0.05 implying that the model was significant. Finally, the coefficient results show a standardized beta coefficient of 0.342 for innovation and 0.055 for leadership style. The linear regression model was summarized as follows:

$$\mathbf{PER_{F} = 0.588 + 0.055 L_{S} + 0.342\ Inov + \varepsilon}$$

The results for the mediation relationship are summarized as shown in Table 25.

Table 25

Summary of Regression Results for the Mediating Effect

Parameter	Step 1	P-Value	Step 2	P-Value	Step 3	P-Value	Step 4	P-Value	Change	Conclusion
R Square	0.043		0.197		0.146		0.137		0.094	
Adjusted R Square	0.040		0.195		0.144		0.132		0.092	
F value	15.640	0.000	85.795	0.000	58.899	0.000	27.643	0.000		
β Constant	1.649	0.000	1.955	0.000	0.623	0.067	0.588	0.161	-1.061	Partial Mediating
β Leadership style	0.207	0.000	0.444	0.000			0.055	0.322	-0.152	effect detected
β Innovation					0.382	0.000	0.342	0.000	-0.040	

Source: Survey Data (2024)

When the composite index for leadership style was regressed against performance, the strength of the relationship as indicated by adjusted R square was found to be 0.040 and a standardized beta coefficient of 0.207. When mediating factor, that is innovation, is introduced, when the predictor variable is present, the strength of the relationship as indicated by adjusted R square increased to 0.132, while the standardized beta coefficient for leadership style reduced by 0.152 to 0.055. This indicates that the effect of predictor variables decreases as the overall explanatory power of the model decreases.

The decision on the hypothesis tested was made using the criteria recommended by Baron and Kenny (1986) which states that if in the first step of regressing performance against leadership style, the coefficient of leadership style is significant and either step two of regressing innovation on leadership style or step four of regressing performance on leadership style and innovation is also significant, then some form of mediation is supported. If in step four innovation is no longer significant after controlling for leadership style, then full mediation is supported. If in step four innovation remains significant after controlling for leadership style, then partial mediation is supported. MacKinnon et.al (2012) also provides a basis to support the decision for partial mediation in their four-step approach. In step one, the independent variable (leadership style) should be significantly related to the dependent variable (performance). Step two involves the leadership style being significantly related to the hypothesized mediating variable producing a significant coefficient. In step three innovation must be significantly related to performance, controlling leadership style with a resultant significant coefficient and finally the relationship between leadership style and performance should be weaker when the innovation is added to the model.

Thus, the leadership style coefficient should be smaller which is evidenced by a change of 0.152 supporting the conclusion that partial mediation is detected.

In this study it was found that in step four, innovation remained significant after controlling leadership style though the practice of innovation was highly practiced (M=4.10). Hence, in view of the findings and the criteria, the study rejected the null hypothesis. The findings of the study can be explained by the way the variable was operationalized in terms of the leaders' attitude towards innovation and the types of innovation. The variable was measured in the form of the leader's attitudes, their views, and their perceptions towards support for innovation against actual performance levels of the commercial banks in Kenya between 2017-2021. The perceptions of the respondents which were at the cognitive level differed from the reality of the performance of the commercial banks in terms of profitability, portfolio quality, financial management and efficiency and productivity. This explains the level of significance > 0.05 on leadership style after introducing innovation as a mediator; hence, partial mediation is supported. Therefore, it was concluded that innovation has a partial mediating effect on the relationship between leadership style and performance of commercial banks in Kenya. Thus, the strength of the relationship between leadership style and performance was dependent on the state of innovation in the commercial banks in Kenya.

The demographic characteristics supported the findings of this hypothesis based on the size and ownership of the commercial bank. The size of the commercial banks indicated that most of the respondents were from large and medium tier commercial banks at 58% and 23% respectively indicating that they had resources set aside for engaging in innovative activities. The interviewed managers shed more light to why the mediation results were not significant because of the context of the Kenyan banking sector by opining that despite the enormous benefits accrued to the innovations, the rate of penetration as well as level of uptake was differentiated across the different banks. This largely depended on the size of the bank, the target clientele as well as the product offering for the different banks. The question of bank ownership also played a key role when it came to the kinds of innovation that the bank adopted. However, for most commercial banks, the rate of penetration for the innovations was way above average and the projection was that it would continue growing. Many of managers were happy with the positive impact that the innovations had on the banks' performance and profitability as opined by Mr. M:

> *"The uptake of innovation has really improved the performance in the sense that customers can physically visit the bank and can also make the transaction elsewhere without the need to come to the bank."* (Mr. M – Manager KII)

From the demographic data, the respondents from foreign owned banks accounted for 41.2% of the managers and they complained that the main drawback to them adopting innovation lay in the bureaucratic systems of such innovations being approved at their head office. They argued that most of these banks ordinarily get all their directions from their head offices including the kind of innovations to adopt. Consequently, the head office tries to promote innovations that do fit the context of the local market. This makes it difficult for the innovation to be adopted and the frustration was well expressed by informant Mr. R below:

> *"This Bank is a subsidiary and foreign owned. We face challenges with innovation of products unless the product is from head office. Challenges comes from the head office where the people do not understand the local market. They want customer products to be copy pasted from overseas markets. They greatly affect individual subsidiary*

> *innovation because of tedious approval process at the same time a lot of bureaucracy to obtain approval."* (Mr. R – Manager – KII)

The challenges on the uptake of innovation in the banking industry also support the study's results. Interviewed managers revealed that despite the huge benefits that accrue with the adoption and uptake of innovations, their uptake is also plagued by several challenges. The managers pointed out cases of fraud as a major setback in their attempt to fully automate their systems through the innovations. Informant Ms. B had this to say:

> *"There have been cases of fraud in internet banking and people who are trying to con people using mobile phones. However, in our banking system we put safeguarding measures to ensure that such cases are reduced. With internet banking, right from the start there were some of reports of fraud, but we sealed the system. The system is now watertight and those who are banking with us through Internet, right now they're safe."* (Ms. B – Manager KII)

Conceptually, innovation may be defined as the process of generating ideas or taking on (using) novel ideas, processes, or items (Walker et al., 2011). It is the degree to which an organization makes use of an idea ahead of its peers (Rogers, 2003). An innovation is only as good as its application as the innovation process consists of the commencement and execution phase (De Jong & Den Hartog, 2007). In the banking sector, innovation falls on technological based innovations to drive products, services, and processes. Commercial banks offer similar products and services but there is need to be innovative in their provision of service to customers to favorably compete. A product/ service innovation is a primary way of the organizations adjusting to the market, technology or competitive fluctuations and may include small adaptations to existing products. In technology innovation, a change in the organization's production process makes construction of a product or service more efficient or produces greater volumes (Daft, 2010). The variable sought to examine and understand the level of innovation of the commercial banks in Kenya. It is noted that commercial banks require a high support for innovative ideas and culture in their product offering of mobile and internet banking, ATMs and debit and credit cards. The respondents qualitatively acknowledged in terms of the collaborative culture that certain situations called for the leaders to exercise their authority especially when it came to problem solving, they also appreciated that the consultative nature of how decisions were normally arrived at had helped their organizations to a great extent especially when it came to new innovations that had steered the banking sector and helped keep it afloat especially during the COVID-19 Pandemic. In their own sentiments, they acknowledged that when people are given room to solve problems, they are bound to come up with very innovative solutions that can work towards improving the performance of financial institutions. For this reason, the respondents felt the existence of innovation would affect the performance of commercial banks.

The descriptive statistics on the mediating variable had an aggregate mean of 4.10 which is a high extent and on average the respondents agreed that innovation was supported and adopted in the banks. The variable of innovation was operationalized using leader’s attitude towards innovation (M=4.19) and types of innovation (M=4.08). Each of the dimensions of the leader’s attitude towards innovation was further operationalized using several indicators. The descriptive statistics reported showed the behavior of the indicators from the surveyed managers of the banks highlight important attributes of this variable that help explain the partial mediating effect of innovation on the relationship between leadership style and innovation. The themes revolved around encouraging new ideas (M=4.3). When interviewed, many of the managers were unanimous that they all encouraged adoption and uptake of innovations in their respective banks and that they also encouraged their staff to come up with innovative and better ways to enhance service delivery and normal bank operations. Many of them reported that whenever an innovation was floated, they were always ready to implement it once it was assessed and its feasibility ascertained. They also reported that the innovations had led to improved performance of the institutions, which was the best-case scenario in some banks, as articulated by informants Mr. D and Ms. R:

> *"Innovations and new ideas are highly encouraged and supported. We are effective in implementing changes that come with it. The bank doesn't hesitate in implementing a change that is innovatively based for example internet and mobile banking."* (Mr. D – Manager KII)
> *"Most of the time when a member comes up with an innovation, we try to engage with them, talk about the innovation, put innovation at the heart of our strategies and gather information around the innovation. We use the information on the new ideas, and this has helped us achieve some good experiences. We have been able to serve customers better. So, our space for innovation is open."* (Ms. R – Manager KII)

The second theme was encouraging, and supporting innovative employees (M=4.24), which was also supported by the interviewed leaders who expressed that some of the challenges they faced in the organization may not be day-to-day occurrences and hence, require innovative ways, methods, and approaches to deal with them. The managers appreciated that at times you may need to think outside the box, consult widely and even benchmark before you can come up with a solution to the problem. They also appreciated the fact that some challenges and problems require high levels of innovation to solve them, while there are those who felt that solving a problem requires a careful analysis of how the problem came about before you can solve it to ensure that once solved, it is not repeated as opined by informants Mr. G and Ms. X.

> *"There are some problems which are a bit technical. That is where creativity comes in because if you have a problem which has persisted in an organization, you must find people to expand their thinking to*

> *come up with ways of solving that problem. That is where consultation comes in a lot and sometimes benchmarking. You check around other similar businesses. There must be a bank that has experienced that kind of a problem the past. If you consult with this bank, you can get a way out in solving the problem. Then there is analysis. You must create space for analysis. You ask yourself and your team: How did this problem come about? How can it be eliminated? So, you analyze the characters, the behaviors and the factors that led to the problem. Then you come up with the steps necessary to prevent the problem from arising again in future. That is what we call mitigation measures*." (Mr. G – Manager KII)

> *"First, I would define the problem by talking about it to my fellow colleagues or by observation, look more closely to the issue and find any relative information, analyse the problem with the team so that I can get multiple opinions then create a solution using the information I have gathered about the problem."* (Ms. X – Manager KII)

The other themes were putting innovation at the heart of the strategic plan (M=4.21), engaging in shaping an innovative organization culture (M=4.19), gather and use information about customers to build new products/ services (M=4.16), gathering information about competitors and markets (M=4.14) and are effective at implementing change (M=4.11).

Theoretically, this variable was supported by the Diffusion of Innovation (DOI) Theory which seeks to explain how people utilize various innovations (Robinson, 2009). DOI involves the process of communicating an innovation via various channels in each duration of time to community members. The concern of the messages is the new ideas; therefore, the elements of innovation, communication, time and social system must all be present (Rogers, 2003). This theory is therefore central to the study as innovation in the financial industry, is perceived as the way in which financial instruments and technologies are created and popularized; thereby, leading to information access, as well as providing new means of trading and payments. Evidently, as the innovations are adopted by the banking sector, the overall output and performance is influenced (Ngumi, 2013).

The variable sought to identify the state of innovation supported by the leadership style which was classified into leader’s attitude and types of innovation presented in the various products offerings; namely, mobile and internet banking, debit and credit cards and ATMs. The study found that the leader’s attitude was high in support for innovation followed by its influence on mobile banking, ATMs, internet banking and finally debit and credit cards which are the products offered by commercial banks. The leader’s attitude enables them to support innovative ideas that lead to the adoption of innovation and enabling the followers design superior performing products and services to the clientele. The leaders have a vast wealth of theoretical and practical knowledge in commercial banking. It is thus noted that the postulates of DOI theory seem to be well applied in the banking sector and accounting for partial mediation of innovation on the relationship between leadership style and performance.

When the findings of this study are compared with previous research from De Jong and Den Hartog (2007), Cheung and Wong (2011), Müceldili (2013), Yildiz et al. (2014), Zhou et al. (2014), Gök and Peker (2017), Muchunu (2018), Walker et al. (2011), Sanda and Nana (2017) and Ngumi (2013). De Jong and Den Hartog (2007) found that leaders, through actions that encourage innovation influence their employees’ innovative behavior. Similarly, Cheung and Wong (2011) found a strong positive co-relation between transformational leadership and the creativity of employees which is even stronger when leaders provide support for their tasks and relationships. Müceldili (2013) conducted a study in Turkey on the influence of authentic leadership on creativity and innovation and found that AL has a positive relationship with employee creativity, employee creativity has a positive impact on innovativeness and AL has a positive relationship with innovativeness. Yildiz et al. (2014) also conducted a study on workers in service (event and communication agents) and industry (textile manufacturing) sector in Turkey and found that Innovativeness, transformational and transactional leadership have higher effects on business performance. Zhou et al. (2014) similarly conducted a study in the manufacturing industry in China and found that there was a positive relationship between authentic leadership and innovation mediated by employee emotions. The findings also agree with Gök and Peker (2017) and Muchunu, (2018) who found that the result of successful adoption of new ideas to the organization is to commercialize or make profit from the new products, services, or processes. The findings further agree with Walker et al. (2011) who concluded that innovations should also generally improve service delivery to its constituents which is integral to the banking industry.

Closer home, Sanda and Nana (2017) conducted a study in the Telecommunication Sector of Ghanaian economy and concluded that transactional and authentic leadership have a positive impact on employee creativity. Finally, Ngumi (2013) in a study conducted to investigate the influence of innovation on performance of commercial banks in Kenya found that bank innovations had a statistically significant influence on the income, return on assets, profitability and customer deposits which are performance indicators in commercial banks in Kenya. He concluded that technological innovation has been embraced in the business world, more so in the banking sector, as a tool to increase productivity and performance due to the competitive environment.

Although most of the previous studies were in different sectors, the findings are comparable to those found in this current study. In view of this, the findings on this hypothesis make an important contribution to the banking industry in several ways, First, previous studies by Sanda and Nana (2017); Zhou et al. (2014); Yildiz et al. (2014) indicated that there was a gap in the use of the construct of innovation or creativity as a dependent variable rather than a mediating variable. Secondly, the studies were conducted in other sectors and innovation had not been directly linked to leadership style and performance. Thirdly, the findings on hypothesis four showed that the strength of the relationship between different styles of leadership and performance are dependent on the potential created in the system which was achieved by the operationalization of the variables using leadership attitudes and types of innovation which has been applied in the banking sector for the first time. Additionally, the previous studies except Ngumi (2013) were conducted in other sectors and since the findings agree with those of the current study, the current study; therefore, provides empirical evidence that findings obtained can be generalized in commercial banks despite their unique characteristics of the banking sector.

Summary on Test of Hypotheses

Table 26 summarizes the test results for the study hypotheses as discussed above.

Table 26

Summary of Test of Hypotheses

Hypothesis	Findings	Decision	Conclusion
$H0_1$ Transformational Leadership has no significant effect on performance of commercial banks in Kenya	P=0.040<0.05	Reject $H0_1$	Transformational Leadership has a significant effect on performance of commercial banks in Kenya
$H0_2$ Transactional Leadership has no significant effect on performance of commercial banks in Kenya	P=0.000<0.05	Reject $H0_2$	Transactional Leadership has a significant negative effect on performance of commercial banks in Kenya
$H0_3$ Authentic Leadership has no significant effect on performance of commercial banks in Kenya	P=0.001<0.05	Reject $H0_3$	Authentic Leadership has a significant effect on performance of commercial banks in Kenya
$H0_4$ Innovation has no significant mediating effect on the relationship between leadership and performance of commercial banks in Kenya.	P=0.322>0.05 for Leadership style	Fail to Reject $H0_4$	Innovation has a partial mediating effect on leadership style
	P=0.000<0.05 for Innovation	Reject $H0_4$	Innovation has a significant effect on performance of commercial banks in Kenya
	No conclusion of mediated relationship		
	Evidence of partial mediation		

Source: Survey (2024)

Chapter Five: Summary of Findings, Implications, Conclusions Recommendations and Areas of Further Research

Introduction

This last chapter of the Dissertation presents a summary of the findings, the practical and theoretical implications of the study are then discussed before the conclusions are drawn to evaluate the extent to which research questions have been answered. The chapter then makes recommendations to inform application of leadership styles in this century that is characterized by a volatile and disruptive operating environment. The chapter winds up with areas of suggestion for future research.

The main aim of the study was to investigate the mediating effect of innovation on the relationship between leadership style and performance in commercial banks based in Nairobi City County Kenya. The study aimed to provide a Kenyan context of the effect of three leadership styles; transformational, transactional, and authentic leadership on performance as mediated by innovation. The study's secondary aim was to apply empirically established metrics of performance, leadership style and innovation to estimate a model for commercial banks in Kenya, four objectives guided the study. The findings of the objectives reported in chapter 4 summarized in this chapter so as to draw implications leading to the study conclusions and areas for further research.

The study was founded on the epistemological orientation of pragmatism and adopted a mixed method cross-sectional explanatory descriptive research design. Target population of the survey study was all the 39 commercial banks with headquarters in Nairobi, Kenya as of 31st Dec 2021. A sample size of 370 senior and middle level managers was selected using multistage sampling procedures by means of proportionate stratified sampling technique to arrive at meaningful and objective data.

Summary of the Descriptive Findings

The reported findings from the study were obtained from 352 respondents comprising 66 senior and 286 middle managers in the commercial banks who displayed a wide range of demographic attributes in terms of bank ownership, bank tier group, number of years the bank has operated in Kenya, respondent's gender, number of years worked in the bank, management position held in the bank and department in the bank the respondents served in at the time of the survey. Qualitative findings were also obtained from 15 senior and middle managers who were purposively sampled. The research had adopted these attributes based on their expected roles in explaining the phenomenon being investigated in the study involving the effect of leadership styles on performance. The findings were reported through frequencies and percentages and these findings were used to interpret the descriptive, inferential, and qualitative results in the study.

The descriptive characteristics of the study were reported using means and standard deviations. The independent variables included transformational leadership, transactional leadership, and authentic leadership; the dependent variable was performance, while the mediating variable was innovation. Quantitative and qualitative data used to interpret findings was obtained through a structured questionnaire and interview guide using indicators from previous research where the respondents were required to respond to the statements on each of the variable on a five-point Likert scale for the quantitative data. An aggregate mean of 1 indicated no extent of practice of the attributes, 2 was interpreted to indicate that the respondents felt the attributes to a low extent, while an aggregate mean of 3 meant that they were practiced to a moderate extent, 4 to a high extent and 5 to a very high extent of practice of the attributes in the research questionnaire.

The results reported from two independent variables (transformational and authentic leadership) recorded a high mean, while transactional leadership recorded a moderate mean from both senior and middle level managers. The study interpreted this mean as indicative of practice to a high extent for transformational and authentic leadership styles and moderate practice for transactional leadership investigated in the commercial banks in Kenya. The researcher deciphered this based on the complexity and vibrancy of the business environments that banks find themselves operating in that call for the need for application of leadership practices that spur new ways of working to drive better performance.

The mediating variable equally reported a high mean which the researcher interpreted as an indication that innovation was embraced at the heart of banking operations. The sub indicators of leaders' attitude towards innovation and the types of innovation both recorded high means and the respondents agreed that the leaders in their current banks encouraged new ideas which lead to adoption of innovative products of which mobile banking recorded the highest mean followed by internet banking, ATMs and finally debit and credit cards.

The dependent variable, which was performance, recorded a moderate mean by both senior and middle level managers. This was interpreted by the researcher as a steady growth in performance during the five-year period of 2017-2021 which characterized by a dynamic macro-economic operating environment where there were dips in performance in 2020 due to the COVID-19 pandemic. The operating environment had led to stiff competition among the banks during the period. The researcher also noted a high standard deviation which was indicative that the banks performed at different levels during this period.

Summary of Findings on the Research Objectives

The study had four objectives that were answered through relevant hypotheses. The inferential data to answer each of the objectives was analyzed using multiple linear regression analysis, while qualitative data that had been purposively sampled from 15 Managers (9 Senior Managers and 6 Middle Level Managers) with whom Key Informant Interviews were conducted was coded and thematic analysis carried out. The findings were incorporated with the quantitative data report.

Transformational Leadership and Performance

The first objective of the study was to establish the effect of Transformational Leadership on performance of commercial banks in Kenya. The study's hypothesis one was meant to answer this objective by testing the effect of transformational leadership on performance of commercial banks in Kenya. The findings on objective one showed that transformational leadership had a significant positive effect on performance of commercial banks in Kenya. The conclusion was explained based on demographic characteristics of the respondents, the descriptive statistics of the variable, qualitative responses, previous research, and the Transformational Theory of Leadership.

The descriptive results of the study found that most of the respondents were either executive, senior or middle managers who had worked for a period of between one and five years in the commercial banks and are responsible for driving performance. The majority of the banks were either locally owned private or foreign owned, which depicts their nature as being strategically oriented and placing a premium on the contribution of leadership at all hierarchical levels. These organizations work with well stated missions, ambitious visions and have a heightened awareness of their contextual operating environment since most of the respondents had worked in commercial banks that had been in existence in Kenya for a period of over ten years. The findings were consistent with the theoretical postulates of the TL leadership in noting that the attributes of TL Theory, the 4Is; idealized influence, inspirational motivation, intellectual stimulation, and individualized stimulation were practiced to a high extent and affected performance. The findings were also consistent with empirical literature from previous studies which noted that the practice of transformational leadership leads to the achievement and sustaining of better performance since this style of leadership motivates and inspires a compelling vision in the followers, while developing a mentoring and coaching relationship which encourages followers to reach for higher level needs since they are aware of the significance of higher goals. The qualitative interview data set supported the findings by recognizing open and collaborative leadership impact on performance as organizational culture strongly influenced visionary leadership.

Transactional Leadership and Performance

The second objective of the study was to determine the effect of Transactional Leadership on performance of commercial banks in Kenya. Hypothesis two of the study was meant to answer this objective by testing the effect of transactional Leadership on performance of commercial banks in Kenya. The results of objective two indicated that transactional leadership had a significantly negative effect on performance of commercial banks in Kenya. The study explained the conclusions arrived at using the descriptive statistics obtained on the components of transactional leadership, qualitative research findings, previous research, and the postulates of Behavioral Theory of Leadership.

From the descriptive statistics, the dimensions of transactional leadership were practiced to a moderate extent. The study noted that the management in commercial banks applied the leadership style using elements of contingent rewards where they expressed satisfaction when followers meet expectations and making clear to the followers what they can expect to receive when performance goals are achieved while assisting followers to meet their goals in exchange for their effort. From the theoretical perspective, the study noted that the emphasis of transactional leadership is a task-oriented style which is based on exchanges to motivate followers using rewards and benefits. This makes it easily adoptable in the banking industry as a performance-oriented sector where targets are set at the beginning of the year and rewards such as bonuses and salary increments tied to achievement of certain agreed performance levels. When targets are achieved and rewards or punishment given, the employees are motivated to achieve the next set of targets. Additionally, findings from previous empirical literature were consistent with the study's findings and showed that transactional leadership negatively affected performance as it does not intrinsically stimulate employees' performance. Leaders adopting a structured approach to problem solving was an emerging theme in qualitative findings which was consistent with study findings on transactional leadership which is geared towards rewarding followers adhering to set policies and procedures, while punishing those who did not follow standard operating procedures which may be counterproductive to encouraging innovation.

Authentic Leadership and Performance

Objective three of the study sought to establish the effect of authentic leadership on performance of commercial banks in Kenya. Hypothesis three of the study was meant to respond to this objective by testing the effect of Authentic Leadership on performance of commercial banks in Kenya. The results of objective three indicated that authentic leadership had a significant positive effect on performance of commercial banks in Kenya. The study explained the conclusions arrived at using descriptive statistics of the variable, qualitative research findings, previous research, and the Authentic Leadership Theory of Leadership.

From the descriptive statistics, the study noted that there was gender equity at management levels at almost 50-50 levels. When this was analysed from the gender lens, it indicated the presence of attributes of AL that support consultative leadership in their application and hence, where females are well represented, their influence on the leadership style adopted by the organization applied is felt. Authentic leadership was practiced to a high extent with the dimensions of balanced processing where the leaders listened closely to the ideas of those others before making a decision including those who disagree with them. The theoretical underpinning for the variable was anchored in The Authentic Leadership Theory which posits that authentic leaders behave in ways that portray that they are deeply aware of their thoughts and behaviors and their follower's view of them. The study findings were consistent with empirical literature that supported the propositions since authentic leaders are relational and lead by example which in turn motivates followers to perform at higher levels. The qualitative interview results supported the study findings by yielding an overarching theme of a relationship oriented or interactive organizational culture. The sub-theme of informal gatherings building and supporting interactive organization culture and free flow of ideas also supported the findings leading to higher levels of performance.

Mediating effect of Innovation

The last objective of the study sought to assess the mediating effect of innovation on the relationship between the extent of practice of leadership style and performance of commercial banks. Hypothesis four of the study was meant to answer this objective by testing the mediating effect of innovation on the relationship between leadership and performance of commercial banks in Kenya.

The results of objective four indicated the R^2 value increased as the β value for leadership style decreased after the mediator was introduced into the equation indicating that innovation partially mediated the relationship between leadership style and performance of commercial banks in Kenya. The study explained the conclusions arrived at using the qualitative data responses, the descriptive statistics of the mediating variable, previous research, and the Diffusion of Innovation Theory.

On the basis of the descriptive statistics, the study found that the respondents agreed that innovation was developed and displayed in the banks by leaders who encourage new ideas, encourage and support innovative employees, put innovation at the heart of the strategic plan, engage in shaping an innovative organization culture, gather and use information about customers to build new products/ services, gather information about competitors and markets and are effective at implementing. Theoretically, the study was supported by the propositions of Diffusion of Innovation Theory which seeks to explain the utilization of various innovations. The findings were consistent with extant empirical literature which emphasizes the need for innovation in form of leveraging on technology to develop products and services that not only lead to increase in bottom line but also enhance the overall customer experience.

Qualitative results supported the findings as space for innovation was a latent theme supported by the sub-theme that leaders encourage adoption and uptake of innovation. The rate of penetration of innovation was also a major theme and supported by the sub-theme that different banks were at different rates of penetration which supported the partial mediation findings. The qualitative findings also yielded the theme of challenges of uptake of innovation with sub-themes fraud as a major set-back in full automation and foreign owned banks plagued by bureaucracy further explained the partial mediation results.

Implications

Based on the first objective of the study, the researcher observed that the findings raise two implications touching on the practice of transformational leadership style in the banking sector. The first implication that arises is that it illuminates the need for leaders in the banking sector to understand the role of their microeconomic (internal) environment and macroeconomic (external) environment in the successful application of transformational leadership practice in the positive contribution to the bank’s performance. The internal environment consists of the culture, mission, vision and the relationship between leaders and followers, while the external environment has to do with the nature of the institutions and their unique characteristics. Secondly, the findings of the study call for a situational approach to the application of TL; therefore, leading to the conclusion that situational leadership is relevant in the application of TL. Leaders in organizations should apply the constructs of TL taking into account the internal and external context.

Based on objective two, the researcher observed that the findings raised two implications. First, they reveal a close link between leadership and human resource practice since the human resource orientation embraced by the leader will determine whether the leader will have a people orientation (soft approach) or performance orientation (hard approach). Secondly, the researcher observed that the practice of transactional leadership can lead to negative effects since it serves as an extrinsic source of motivation which emanates from the hard approach to management of human resources, and this may not sustain high level of performance in the long run.

In reference to objective three, the researcher noted that the findings raise implications touching on the evolutionary nature of authentic leadership due to contextual experiences and therefore the context it is applied in determines its suitability especially in cases where the operating environment is dynamic and riddled with adverse conditions which the sector has experienced in the recent years. Secondly, the findings bring out a strong implication that AL embraces the attributes of collaborative leadership as it is critical for the leaders to involve followers in the practice of AL to drive performance. These findings can therefore be generalized in other sectors even though the extent of the impact depends on the sector where authentic leadership is practiced.

From objective four, the researcher observed that the findings on this objective raised the implication towards the important role played by innovation when exploring the link between leadership style and performance. The study provides a more comprehensive operationalization of innovation using various dimensions of innovation which are leadership attitudes and types of innovation which has been applied in the banking sector for the first time. Additionally, previous studies were conducted in other sectors and since the findings agree with those of the current study provides empirical evidence that the findings obtained can be generalized in the banking industry despite the unique characteristics of the banks studied.

Conclusions

Based on the study findings, the study made the following three conclusions. First, the study concluded that leaders of commercial banks in Kenya practice various leadership styles to varying degrees. Transformational leadership and authentic leadership are practiced to a high extent, while transactional leadership is practiced to a moderate extent. The application of the various leadership styles has resulted in the implementation of innovation due to the leaders' attitudes towards innovation and the various types of innovation mainly mobile banking, internet banking, ATMs and debit and credit cards; thus, explaining the relationship between leadership style and performance of commercial banks.

Secondly, the study concluded that the practices of transformational and authentic leadership have a significant positive effect on the performance of commercial banks in Kenya, while transactional leadership has a negative significant effect on performance of commercial banks in Kenya. Additionally, transformational, and authentic leadership styles require a situational and collaborative approach to leadership as well as a human resource management practice with an orientation to people other than performance. A concern for people over performance leads to intrinsic motivation of the employees which in turn produces sustainable performance.

Finally, the study concluded that the relationship between the practice of the leadership style and the performance of commercial banks is dependent on the level of innovation in terms of the leader's attitude and support for innovation and the adoption of various types of innovation mainly mobile banking, internet banking, ATMs and debit and credit cards.

Contributions of the Study to Knowledge

The focus of the study was on leadership style and performance of commercial banks in Kenya. The study; therefore, makes the following contributions to knowledge in the areas of leadership and performance. First, it was evident from the study that understanding both internal and external contexts that banks operate in is vital in understanding the context of application of leadership style mainly transformational and authentic leadership. These call for a situational and collaborative approach to the application of the leadership style especially in the Volatile, Uncertain, Complex and Ambiguous (VUCA) environments which are evolutionary in nature and commercial banks find themselves operating in. The study therefore, underscores the importance of the leaders practicing the leadership style using a situational and collaborative approach and not in a fixed manner to influence sustainable results. The study had established that most of the previous research have been undertaken in other context outside Kenya/ African settings reflecting different macro-economic environment and the ones carried out in Kenya had been carried out prior to a series of unexpected events like closure of banks, capping of interest rates and the COVID 19 Pandemic.

Secondly, the study contributes by adding literature on leadership by revealing a close link between leadership practice and human resource management practice because the orientation embraced by the leader either leads them to have an orientation towards people (soft approach) or towards performance (hard approach). The leaders in the banking industry are therefore required to strike a balance between the two approaches by introduction of leadership programs to provide employees with intrinsic motivation and avoid negative effects on performance.

Finally, the empirical studies previously carried out did not consider the strength of the relationship between different leadership styles and performance being dependent on the potential created in the systems. This was achieved and applied in this study in terms of the potential by the operationalization of the innovation variables where both the attitudes of the leaders/ leaders support for innovation and the types of innovation were applied for the first time on the sector. The current study therefore contributes to the body of knowledge by emphasizing the leader’s attitudes towards innovation, the leadership style adopted and types of innovation in a service-based sector and their linkage with performance.

Recommendations with Policy Implications

The study recommends that commercial banks should focus on leadership development programs that emphasize the practice of transformational and authentic leadership to support and encourage innovation that would in turn lead to improved performance. The commercial banks should also put in place effective and better practices that would encourage situational and collaborative leadership among the leaders and followers as they enhance the practice of both transformational and authentic leadership styles which are applicable especially in the volatile, uncertain, complex, and ambiguous operating environments that the banks find themselves operating in.

The second recommendation is that senior management of the commercial banks should also focus on deployment of soft approach to human resource practices across the management levels since there is a close link between leadership and human resource practice. The soft approach focuses on the people orientation as opposed to the hard approach that emphasizes performance. This is because the soft approach will develop an intrinsic source of motivation in the employees which stems from deriving pleasure in the work itself and not on extrinsic sources based on salaries and benefits which may not be sustainable in the long run.

Thirdly, the leadership of commercial banks in Kenya should encourage and support innovation, put innovation at the heart of the strategic plan as well as shape an organizational culture that supports innovation while gathering and using information from customers and competition to implement innovative products that are relevant to the market. The foreign-owned banks should; therefore, at board level be intentional at allowing their subsidiaries the freedom to determine the products that will be easily adopted in the local markets to reap better return on their investment.

Finally, the study recommends that since the adoption of innovation has a positive effect on performance, the leaders in commercial banks should plough back the returns and devise products that are able to reach the unbanked population in Kenya, while prioritizing information security to curb the problem of fraud. The government should in turn provide incentives to the banking sector that enable the banks the liberty to allow transfer of technology that will aid innovation of world class products from more developed economies with the aim of financial deepening.

Areas of Further Research

The findings were limited to commercial banks in Kenya with headquarters in Nairobi County and may not be generalized to other regulated financial institutions in the financial sector. The study thus suggests that other studies be conducted on other financial players such as microfinance banks, insurance companies and Savings and Credit Cooperative Societies (SAACOs).

Secondly, the study noted that transactional leadership had a negative effect on performance of commercial banks in Kenya. However, some existing literature and previous research shows that transactional leadership has a positive effect on performance of organizations in other sectors such as state-owned corporations, manufacturing sector and events and communication agents. Therefore, studies on transactional leadership should be conducted in other sectors in the service industry apart from banks to establish if transactional leadership will have a significant positive effect on performance.

Thirdly, the study showed that when innovation was introduced as a mediating variable between leadership and performance of commercial banks the results showed partial mediation that was significant agreeing with existing literature that innovation has a significant effect on performance. The study considered cognitive attitudes of leaders which captured their views and perceptions towards innovation against actual performance. Therefore, further studies can be conducted against actual perceived levels of innovation and perceived service delivery levels. Concerning the types of innovation, further studies can be conducted to include other innovations such as agency banking and their effect on the performance of commercial banks.

Finally, the study was cross sectional in nature and findings were based on data collected in a survey relating to period of five years between 2017- 2022 and therefore, may not be used to make long term inferences about the effect of leadership styles on performance of commercial banks since, sustainability of the banking industry is imperative. During this period, there were adverse macro-economic conditions such as the capping of interest rates, mergers, acquisition and closure of banks, COVID-19 Pandemic and conducting of hotly contested general elections in 2017 and 2022 in Kenya. These are factors which could have affected the operations and performance of the commercial banks. The study therefore, suggests that a longitudinal study be carried out covering longer periods beyond five years to determine the long-term effect of leadership style and political interference or mergers and acquisition of commercial banks on their performance.

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APPENDICES

Appendix I: Informed Consent Form

TITLE OF RESEARCH PROJECT: MEDIATING EFFECT OF INNOVATION ON THE RELATIONSHIP BETWEEN LEADERSHIP STYLE AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

PRINCIPLE INVESTIGATOR (PI) NAME: EVELYNE MURIUKI

SCHOOL OF LEADERSHIP- PAN AFRICAN CHRISTIAN UNIVERSITY

I ________________________________voluntarily agree to participate in the above study.

- I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any questions without any consequence of any time.
- I understand that I can withdraw permission to use data from my responses within two weeks, in which case the material will be deleted.
- I have had the purpose and nature of the study explained to me and I have been given the opportunity to ask questions about the study.
- I understand that participation involves giving appropriate responses to the questionnaire or interviews carried out for academic purposes only.
- I understand that I will not benefit directly from participating in this research.
- I understand that all the information I provide for this study will be treated confidentially.
- I understand that in any report on the results of this research my identity will remain anonymous. This will be done in changing my name and disguising any details of my interview which may reveal my identity or the identity of people I speak about.
- I understand that disguised extracts from my interview may be quoted in the Principal Investigator's final thesis and/or any published papers.

____________________________ ____________________ ____________________

Name of Participant Signature Date

____________________________ ____________________ ____________________

Principal Investigator Signature Date

Appendix II: Research Authorization & Ethics Clearance Letter

PAN AFRICA CHRISTIAN
PAC
UNIVERSITY

P.O. Box 56875 - 00200
Nairobi, Kenya
Lumumba Drive, Roysambu
off Kamiti Rd, off Thika Rd
Tel: 0734 400694/0721 932050
Email: enquiries@pacuniversity.ac.ke
website: www.pacuniversity.ac.ke

10TH February 2022

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION & ETHICS CLEARANCE LETTER FOR MURIUKI EVELYNE NJOKI REG. NO: POLD/8437/0/16

Greetings! This is an introduction letter for the above named person a final year student at Pan Africa Christian University (PAC University), pursuing a Doctor of Philosophy in Organizational Leadership (Phd).

She is at the final stage of the programme and she is preparing to collect data to enable her finalize on the dissertation. The dissertation title is ***"Mediating Effect of Innovation on the relationship between Leadership Style and Performance of Commercial Banks in Kenya"***

We kindly request that you allow her obtain a research permit so as to proceed and collect data to inform her research within commercial banks in Kenya.

Warm Regards,

PAN AFRICA CHRISTIAN UNIVERSITY
REGISTRAR
P.O. Box 56875 - 00200
TEL: 0721 932050 0734 400694
NAIROBI KENYA

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Appendix III: Research Questionnaire

This questionnaire is designed to collect data purely for academic purposes. The study seeks to establish MEDIATING EFFECT OF INNOVATION ON THE RELATIONSHIP BETWEEN LEADERSHIP STYLES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA. All information will be regarded with strict confidence. Do not put any name or identification on this questionnaire.

Answer all questions as indicated by either filling in the blank or ticking the option that applies.

Part 1: Demographic Information

A) The Bank

1. Bank Particulars

   Name of the Bank …………………………….

2. Bank Ownership

   Local Public Commercial Bank [ ]

   Local Private Commercial Bank [ ]

   Foreign Commercial Bank [ ]

3. Bank Peer Group/ Tier

   Large Commercial Bank/Tier 1 [ ]

   Medium Commercial Bank/ Tier 2 [ ]

   Small Commercial Bank/ Tier 3 [ ]

4. Number of years bank has operated in Kenya

   Less than 1 year [ ] 1-5 years [ ]

   6-10 years [ ] over 10 years [ ]

B) The Respondent

5. Gender of respondent: Male [ ] Female [ ]

6. Number of years worked in the bank

Less than 1 year [ ] 1-5 years [ ]

6-10 years [ ] over 10 years [ ]

7. Management position held in the bank

No	Position	Tick as appropriate
i.	Executive	
ii.	Senior Management	
iii.	Middle Management	

8. Department in the Bank …………………………….

Part 2: Leadership Styles used in the bank

5. This section of the questionnaire seeks to obtain your opinion on whether your bank identifies and adopts various leadership styles to support innovation for purposes of service delivery and performance improvement. For each of the statements listed below, indicate the extent to which you agree the leader undertakes to apply each in a scale of 1-5 where;

5= Very High Extent 4= High Extent 3= Moderate Extent 2=Low Extent 1= No Extent

Transformational Leadership	My Leader	1	2	3	4	5
Idealized Influence (Attribute)	Instills pride in me for being associated with him/her					
	Acts in ways that builds my respect					
	Goes beyond self-interest for the good of the group					
	Displays a sense of power and confidence					
Idealized Influence (Behaviour)	Talks about his/ her most important values and beliefs					
	Specifies the importance of having a strong sense of purpose					
	Considers the moral and ethical consequences of decision					
	Emphasizes the importance of having a collective sense of mission					
Inspirational Motivation	Talks optimistically about the future					
	Articulates a compelling vision for the future					
	Expresses confidence that goals will be achieved					
Intellectual Stimulation	Re-examines critical assumption to know whether they are appropriate					
	Seeks different approaches when solving problems					
	Gets me to look at problems from many different angles					
Individualized Consideration	Spends time teaching and coaching					
	Treats me as an individual rather than just a member of the group					
	Considers me as having different needs, abilities, and aspirations from others					
	Helps me to develop my strengths					
Transactional Leadership						
Contingent Rewards	Provides me with assistance in exchange for my effort					
	Makes clear what one can expect to receive when performance goals are achieved					
	Expresses satisfaction when I meet expectation					
Management by Exception (Active)	Focuses attention on irregularities, mistakes, exceptions and deviations from standards					

	Concentrates his/her attention on dealing with mistakes, complaints and failures					
	Keep track of all mistakes					
	Directs my attention toward failures to meet standards					
Management by Exception (Passive)	Fails to Interfere unless problems become serious					
	Shows that he/she is a firm believer in 'if it isn't broke don't fix it'					
	Demonstrates that problems must become chronic before taking action					
Authentic Leadership						
Self Awareness	Portrays an awareness of his/her three greatest weaknesses					
	Seeks the opinions of others before making up their own mind					
	Can list their three greatest strengths					
Internalized Moral perspective	Actions reflect his/her core values					
	Does not allow group pressures to control him/her					
	Makes others know his/her stand about controversial issues					
	His/her morals guide what he/she does as a leader					
Balanced Processing	Seeks others' opinions before making up his/her mind					
	Listens closely to the ideas of those who disagree with them					
	Does not emphasize own point of view at the expense of others					
	Listens very carefully to the ideas of others before making decisions					
Relational transparency	Openly shares feelings with others					
	Let's others know who they truly are as a person					
	Rarely presents 'false' front to others					
	Admits his/her mistakes to others					

6. In your own words how would you describe the leadership style displayed in the course of the work in terms of;

Articulating

vision………………………………………………………………………………………

…

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Relationship with colleagues and

subordinates………………………………………………………………………

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Emphasis on

work………………………………………………………………………………………

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Part 3: Leadership Style and Innovation

7. This section of the questionnaire seeks to determine your opinion on how your bank and its leadership support an innovative culture which in turn affects the banks overall performance. For each of the statements listed below indicate the extent to which the bank undertakes to apply each in a scale of 1-5 where;

5= Very High Extent 4= High Extent 3= Moderate Extent

2=Low Extent 1= No Extent

In our banks, the leaders	1	2	3	4	5
Encourage new ideas, throughout the organization					
Encourage and support innovative employees					
Gather and use information about our customers to build new products/ services					

Are effective at implementing change					
Put innovation at the heart of your strategic planning					
Gather and use information about our competitors and markets					
Engage in shaping an innovative organization culture					

8. In your own opinion how does your bank's level of innovation affect the performance of your bank?

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Part 4: Types of Innovation

9. This section of the questionnaire seeks to determine your opinion on how various bank innovations (mobile banking, internet banking, debit and credit cards and ATMs) are influenced by leadership style and have affected the bank's overall performance in terms of profitability, portfolio quality, financial management and efficiency and productivity. For each of the statements listed below indicate the extent to which the bank undertakes to apply each in a scale of 1-5 where;

5= Very High Extent 4= High Extent 3= Moderate Extent

2=Low Extent 1= No Extent

Mobile banking	Statement	1	2	3	4	5
	Income from mobile banking has a high margin thereby contributing positively to bank profitability					
	There has been increase in the uptake of mobile banking which has had a positive effect on the bank's portfolio quality					
	Uptake of mobile banking has a positive effect on the bank's financial management					
	We have experienced reduction in operation costs leading to better efficiency and productivity					
Internet Banking	Income from internet banking has a high margin thereby contributing positively to bank profitability					
	Uptake of internet banking has a positive effect on the bank's portfolio quality					
	Uptake of internet banking has a positive effect on the bank's financial management					
	Internet banking influences reduction of operation costs leading to better efficiency and productivity					
Debit and credit cards	Income from debit and credit cards has a high margin thereby contributing positively to bank profitability					
	Uptake of debit and credit cards has a positive effect on the bank's portfolio quality					
	Uptake of debit and credit cards has a positive effect on the bank's financial management					
	Debit and credit cards influence reduction of operation costs leading to better efficiency and productivity					
Automated Teller Machines (ATM)	Income from ATMs has a high margin thereby contributing positively to bank profitability					
	Uptake of ATMs has a positive effect on the bank's portfolio quality					
	Uptake of ATMs has a positive effect on the bank's financial management					

	ATMs influence reduction of operation costs leading to better efficiency and productivity					

10. In your own assessment how would you describe your bank's rate of penetration of Mobile and Internet Banking, debit cards and ATMs and their effect on performance ?

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Part 5: Performance of Commercial banks in Kenya

11. This section of the questionnaire seeks to obtain your opinion on the trend of performance in terms of profitability, portfolio quality, financial management and efficiency and productivity in the bank over the last five years from 2017 to 2021. For each of the statements listed below, each year indicate the level of performance of your bank using the most appropriate number in a scale of 1-5 where;

5=20% and above 4=15-20% 3=10-15% 2=5-10% 1=1-5%

Aspects of performance	2017					2018					2019					2020					2021				
	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
Profitability in																									
1.Return on investment																									
2. Return on equity																									
3. Return in assets																									
Portfolio Quality																									
1.Portfolio at risk level improved																									
2.Provision expense ratio is very low in this bank																									
3. The ratio of performing loan to restructured loan is significant in the bank																									
Financial Management																									
1.The bank's Debt/ Equity ratio has increased																									
2.The bank's Debt/ Equity ratio decreased																									
3.There was no change in the bank's Debt/ Equity ratio																									

Efficiency and productivity																									
1.Customer Satisfaction Index Improved																									
2. No. of customer complaints reduced																									
3The bank's overall productivity ratio improved																									

Thank you for your participation

Appendix III: Interview Guide

Project Title: ***MEDIATING EFFECT OF INNOVATION ON THE RELATIONSHIP BETWEEN LEADERSHIP STYLE AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA***

1. How would you describe your organizational culture? Probe for approach to leadership, leadership styles and relationship between and among staff in the organization.
2. As a manager in your organization, how would you describe your approach to problem solving within the organization? Probe for existing Standard Operating Procedures when it comes to problem solving in the organization.
3. How would you describe the relationship that exists between and among staff in the organization? Probe for relationship dictated by organizational structure and hierarchy.
4. In your own words how would you describe the leadership style displayed by your leader in the course of their work in terms of?
   a) Articulating a vision for the future
   b) Relationship with colleagues and subordinates
   c) Emphasis on work and productivity
5. In your own assessment, how does organizational leadership affect the performance of organizations in the banking sector?
6. Kindly describe to me your own organizational leadership and how it has impacted on the bank's performance.
7. Kindly describe for me the space of innovation in your organization's operations. Probe for whether innovation is encouraged in service delivery. If it is encouraged, how?
8. In your own opinion, how does your bank's level of innovation affect the performance of your bank?
9. In your own assessment, how would you describe your bank's rate of penetration of Mobile and Internet Banking, debit cards and ATMs ?
10. In your own assessment, how would you describe the impact of Mobile and Internet Banking, Debit Cards and ATMs on the bank's performance?
11. How would you describe the bank's profitability over the last five years (2017 – 2021)? Has it been affected in any way by Mobile and Internet Banking, Debit Cards and ATMs?
12. How would you describe the bank's financial management and efficiency over the last five years (2017 – 2021)? Has it been affected in any way by Mobile and Internet Banking, Debit Cards and ATMs?
13. How would you describe the bank's productivity over the last five years (2017 – 2021)? Has it been affected in any way by Mobile and Internet Banking, Debit Cards and ATMs?
14. How would you describe the bank's overall performance over the last five years (2017 – 2021)?

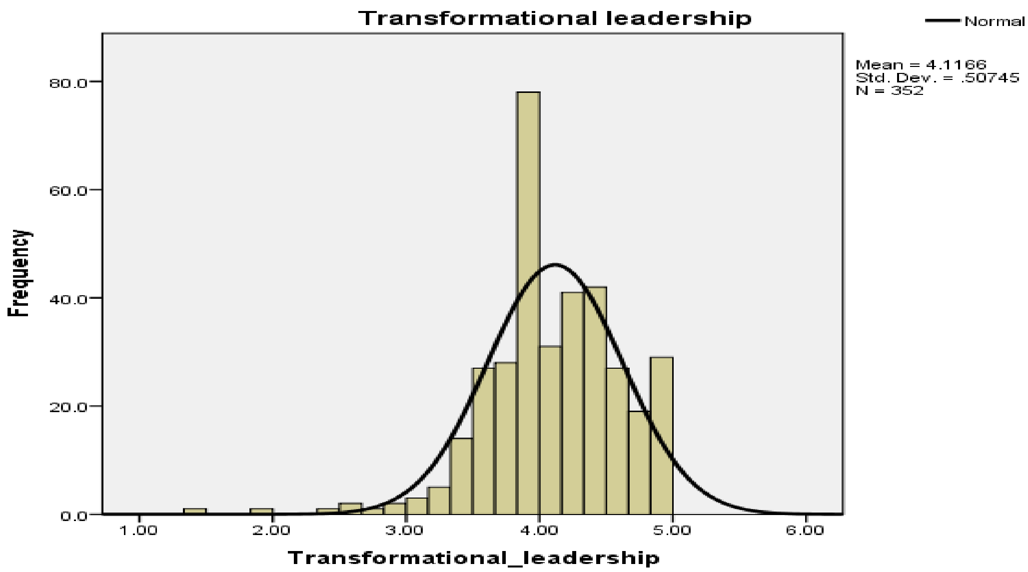
Appendix IV: Sample Size Table

Required Sample Size[†]

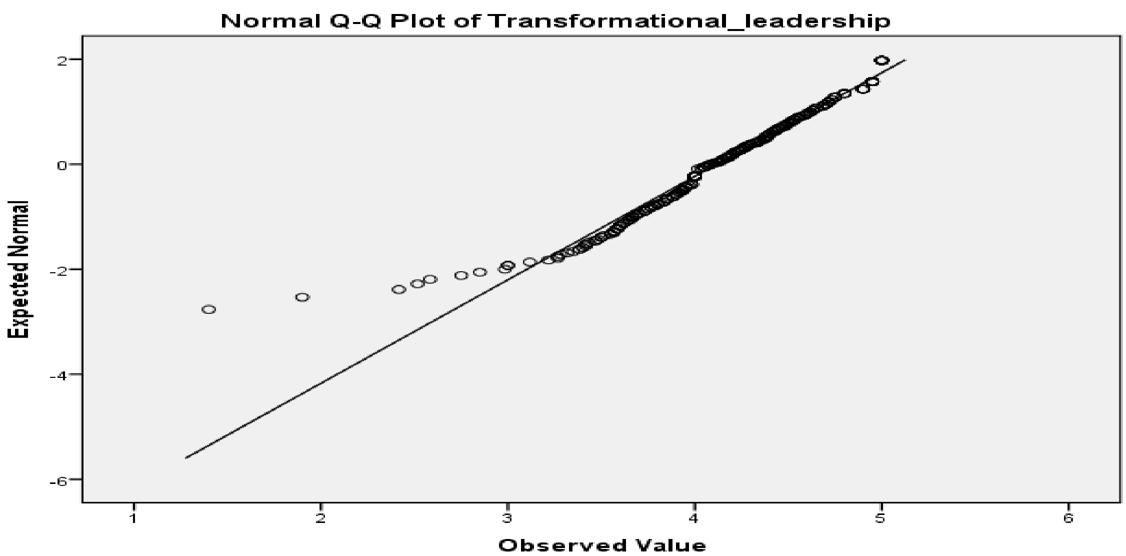
Population Size	Confidence = 95%				Confidence = 99%			
	Margin of Error				Margin of Error			
	5.0%	3.5%	2.5%	1.0%	5.0%	3.5%	2.5%	1.0%
10	10	10	10	10	10	10	10	10
20	19	20	20	20	19	20	20	20
30	28	29	29	30	29	29	30	30
50	44	47	48	50	47	48	49	50
75	63	69	72	74	67	71	73	75
100	80	89	94	99	87	93	96	99
150	108	126	137	148	122	135	142	149
200	132	160	177	196	154	174	186	198
250	152	190	215	244	182	211	229	246
300	169	217	251	291	207	246	270	295
400	196	265	318	384	250	309	348	391
500	217	306	377	475	285	365	421	485
600	234	340	432	565	315	416	490	579
700	248	370	481	653	341	462	554	672
800	260	396	526	739	363	503	615	763
1,000	278	440	606	906	399	575	727	943
1,200	291	474	674	1067	427	636	827	1119
1,500	306	515	759	1297	460	712	959	1376
2,000	322	563	869	1655	498	808	1141	1785
2,500	333	597	952	1984	524	879	1288	2173
3,500	346	641	1068	2565	558	977	1510	2890
5,000	357	678	1176	3288	586	1066	1734	3842
7,500	365	710	1275	4211	610	1147	1960	5165
10,000	370	727	1332	4899	622	1193	2098	6239
25,000	378	760	1448	6939	646	1285	2399	9972
50,000	381	772	1491	8056	655	1318	2520	12455
75,000	382	776	1506	8514	658	1330	2563	13583
100,000	383	778	1513	8762	659	1336	2585	14227
250,000	384	782	1527	9248	662	1347	2626	15555
500,000	384	783	1532	9423	663	1350	2640	16055
1,000,000	384	783	1534	9512	663	1352	2647	16317
2,500,000	384	784	1536	9567	663	1353	2651	16478
10,000,000	384	784	1536	9594	663	1354	2653	16560
100,000,000	384	784	1537	9603	663	1354	2654	16584
300,000,000	384	784	1537	9603	663	1354	2654	16586

Appendix V: Normality Tests

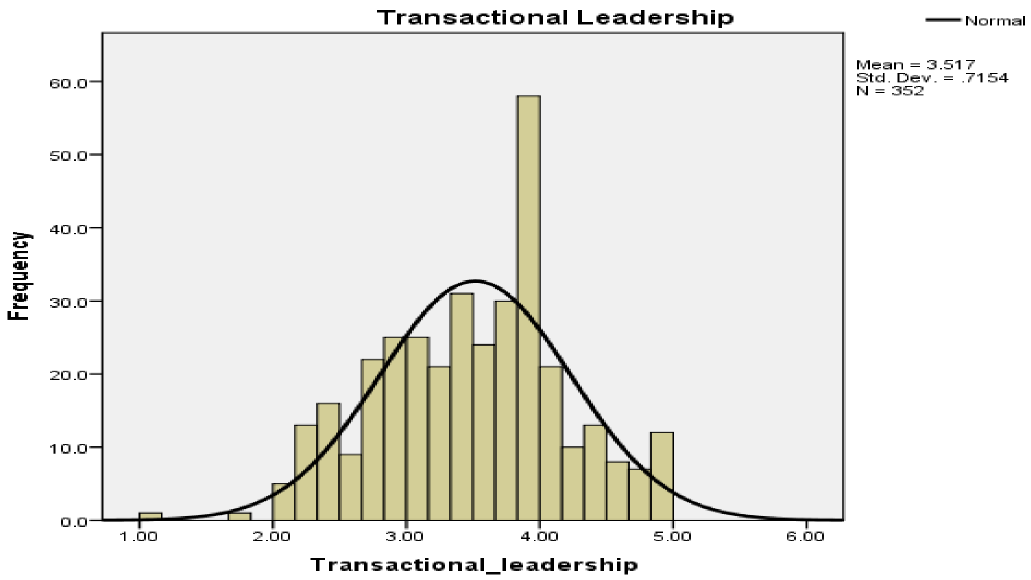
Histogram for Transformational Leadership



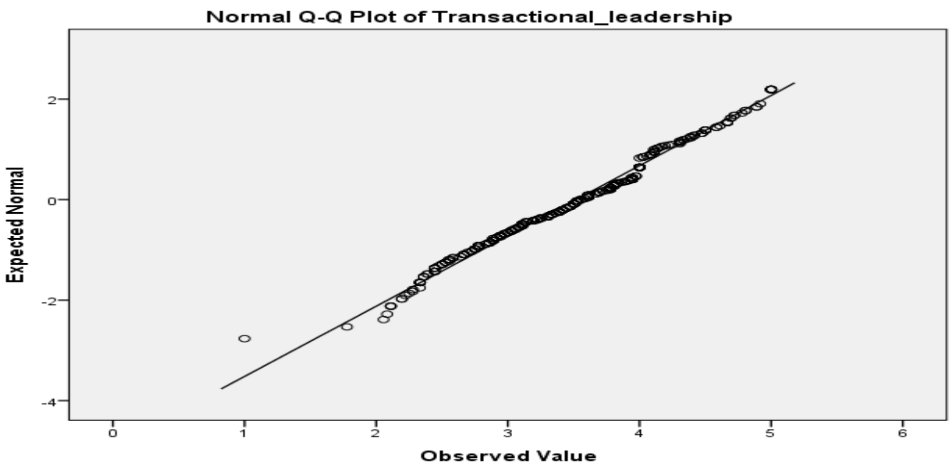
Normal Q-Q Plot for Transformational Leadership



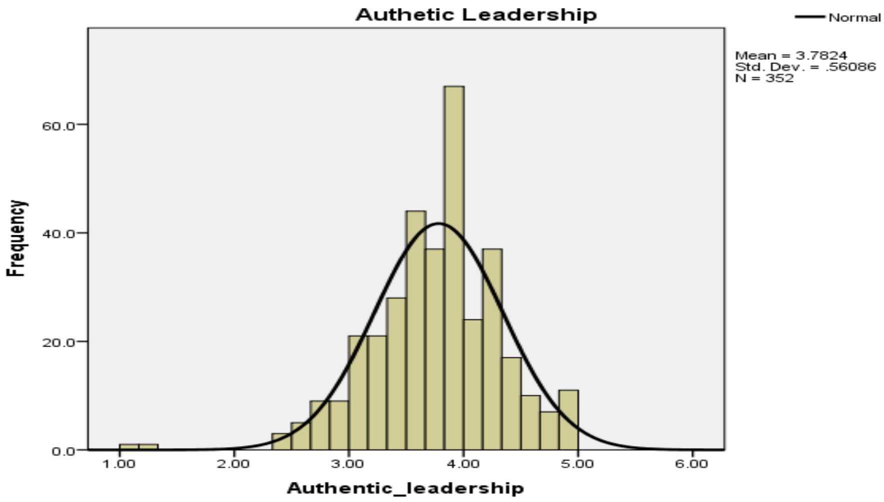
Histogram for Transactional Leadership



Normal Q-Q Plot for Transactional Leadership

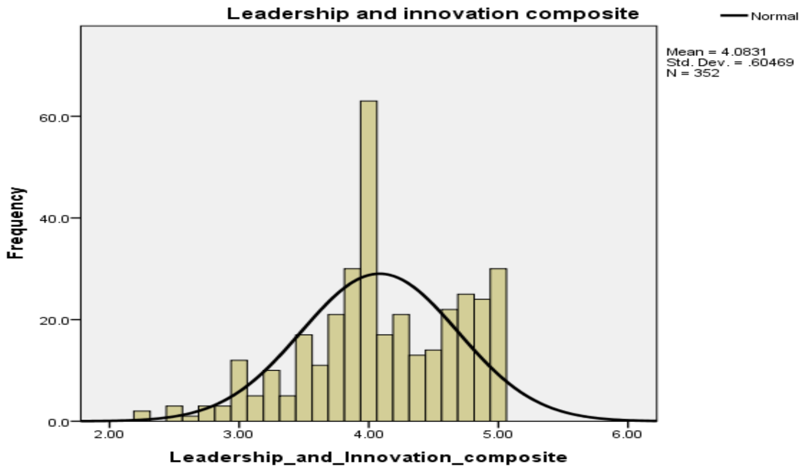


Histogram for Authentic Leadership

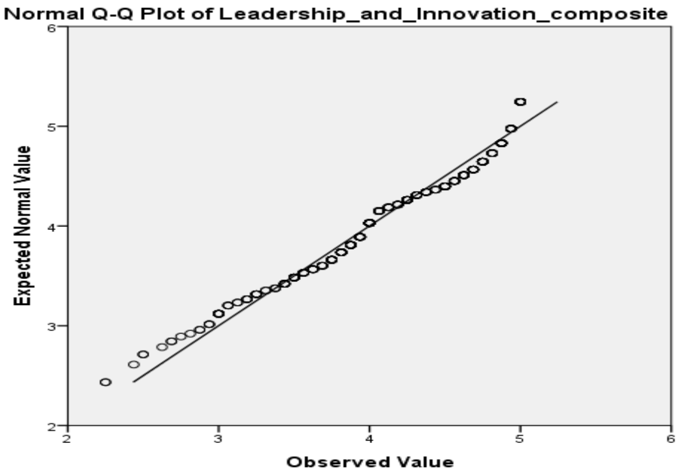


Normal Q-Q Plot for Authentic Leadership

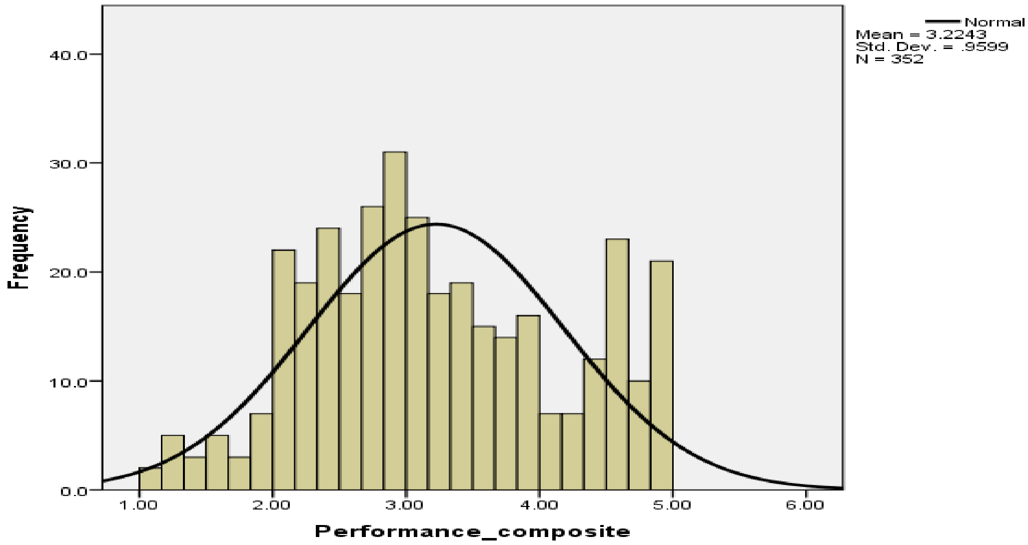
Histogram for Innovation



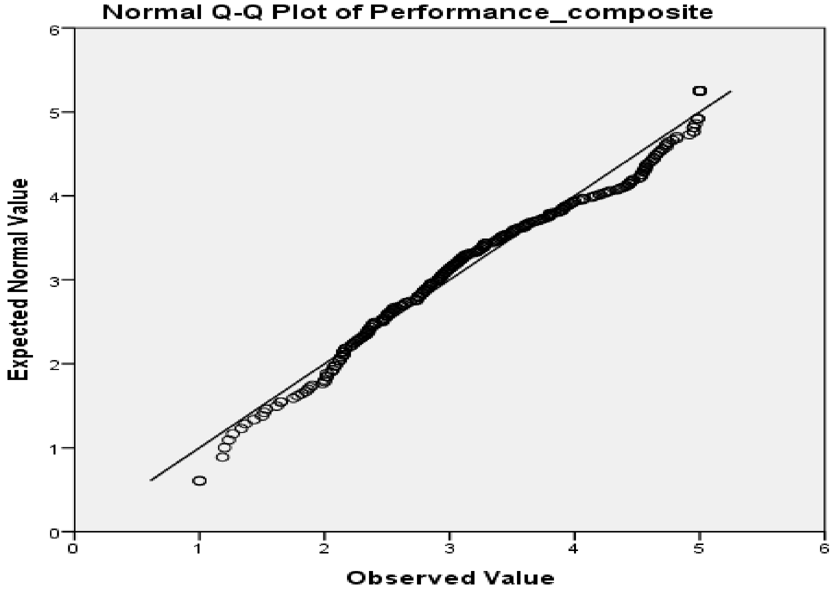
Normal Q-Q Plot for Innovation



Histogram for Performance



Normal Q-Q Plot for Performance



Appendix IV: NACOSTI Permit

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Date of Issue: 15/March/2022

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