Influence of Leadership Empowerment as a Leadership Development Practice on the Performance of Microfinance Institutions in Kenya

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ABSTRACT
Leadership empowerment practices is an important area which is considered and implemented in organizations to increase human capability and some other benefits like to gain competitive advantage. Poor performance of microfinance institutions has become an issue in Africa and majority of these institutions are beginning to embrace corporate governance on their strategic management plans so as to enhance their sustainability. Leadership empowerment is deemed instrumental in strengthening performance and sustainability of microfinance institutions (MFIs) as well as increasing outreach of microfinance (Garson, 2010). This study sought to investigate the influence of leadership empowerment practices on the performance of microfinance institutions. The study objective was to examine the influence of leadership empowerment as a leadership empowerment practice on the performance of microfinance institutions in Kenya. The study hypothesis was that there is no significant influence of empowerment as a leadership empowerment practice on the performance of microfinance institutions in Kenya. The study targeted the chief executive officers and senior officers of the microfinance institutions. The results of this research indicated that leadership empowerment had an influence on performance of microfinance institutions in Kenya. There is also need to empower workers with necessary resources, adequate supervision, ample opportunity, fair treatment, well stipulated rules, opportunities for career empowerment and promotion, informed on the strategic plan of the microfinance.

Keywords: Influence, Leadership Empowerment, Leadership Development, Performance, Microfinance Institutions
INTRODUCTION

Leadership empowerment practices is an important area which is considered and implemented in organizations to increase human capability and some other benefits like to gain competitive advantage. Some empowerment assignments can be carried out concurrently with regular job responsibilities, whereas others require taking a temporary leave from one’s regular job (Garson, 2010). These empowerment assignments can be used to develop managerial skills at current jobs, some may be used to develop new projects or begin new projects serving as department representative on a cross functional teams.

It can be argued that many of the failures of microfinance institutions can be attributed to poor leadership practices. Indeed, it is more than likely that in a lax regulatory environment, unscrupulous or incompetent people establish and attempt to run microfinance institutions, thereby jeopardizing the savings of poor people. For millions of families in need, microfinance offers the hope for a successful small business and more: increased economic stability, better healthcare and housing, the opportunity for education, and ultimately, the real possibility of self-sufficiency. Rapid growth in microfinance over the last three decades has provided over 130 million of the world’s poor with access to micro-credit and savings services, but for many of the world’s poor, these services remain out of reach (Garson, 2010).

Despite the vast potential for microfinance to boost the welfare of millions of people in Africa, poor leadership empowerment practices and misdirected priorities mean that often their initiatives do not reach their targets. For instance, microfinance institutions enter the marketplace offering credit even though those who are living at subsistence levels often want a safe place to save rather than access to credit. They want to build assets that help mitigate risk before they incur debt. In fact the credit products that microfinance institutions offer usually meet best the needs of the better off or the entrepreneurial poor. They find it easier to invest a loan productively than does the individual of lesser means, whose greatest need is usually a place to safely store cash in order to be able to deal with a subsistence household’s requirements (CARE, 2008).

MFIs normally combine a social mission provision of financial services to the lowest income population possible with a financial objective that drives the institution to achieve self-sufficiency. The extent to which microfinance institutions seek to maintain the dual focus of profitability and outreach to poor clients is directly shaped by the composition of the boards of directors and by the priorities established by the board. These two objectives are not mutually exclusive, and that boards, through their strategic decisions and policies, can move institutions in the direction of achieving superior profitability and reaching an expanding clientele of low-income entrepreneurs.

Statement of the Problem

Many studies have been carried out to investigate the phenomenon of microfinance, within various contexts, and they are largely in consensus that microfinance can have positive benefits on the lives of the poor, especially in developing countries (Otero & Rhyne, 2006). However, the majority of these studies tend to examine microfinance in isolation from the socio-cultural context in which it operates.
Many scholars have expressed concern that the commercialization of microfinance is leading to a mission drift evidenced by the over-preoccupation with profitability at the expense of poverty reduction and other empowerment goals. The blame has been laid on the MFIs’ leadership empowerment (CGAP, 2005; Ndungu, 2007; Garson, 2010). Prior studies on leadership and performance have focused on a narrow set of broad characteristics and one or two aspects of performance. There have been calls for more comprehensive theoretical and empirical investigations into the role of leadership and MFI’s performance (Otero & Rhyne, 2006; Kirmani & Zaidi, 2010).

Poor performance of microfinance institutions has become an issue in Africa and majority of these institutions are beginning to embrace corporate governance on their strategic management plans so as to enhance their sustainability. Leadership empowerment is deemed instrumental in strengthening performance and sustainability of microfinance institutions (MFIs) as well as increasing outreach of microfinance (Garson, 2010). This study sought to investigate the influence of leadership empowerment practices on the performance of microfinance institutions in Kenya.

Objectives of the Study

To examine the influence of leadership empowerment as a leadership empowerment practice on the performance of microfinance institutions in Kenya.

Research Hypothesis

There is no significant influence of empowerment as a leadership empowerment practice on the performance of microfinance institutions in Kenya.

Scope of the Study

The study was conducted in 391 microfinances registered with Association of Microfinance Institutions of Kenya (AMFI) 2015 directory. The study targeted the chief executive officers and senior officers of the microfinance institutions.

LITERATURE REVIEW

Trait Theory

The Trait Approach arose from the “Great Man” theory as a way of identifying the key characteristics of successful leaders. It was believed that through this approach critical leadership traits could be isolated and that people with such traits could then be recruited, selected, and installed into leadership positions. This approach was common in the military and is still used as a set of criteria to select candidates for commissions. Most of the studies in this area have been conducted during the first half of the twentieth century. The theory is simple. If the leader is endowed with superior qualities that differentiate him from his followers, or differentiate an effective leader from an ineffective one, it should be possible to identify these qualities. This assumption gave rise to trait theories of leadership. According to this approach, leadership is a conglomeration of set of personality traits.
Trait theorists early in this century contended that there was a finite set of personal characteristics, inner traits, which distinguished effective from ineffective leaders. Trait theory research began about 1904 and systematically expanded for almost fifty years into a giant body of findings, information, and theory. Hundreds of research models and methods were devised over these years to find the sought-after set of leadership traits. Some of the prominent studies are mentioned here.

According to Galen (1995) said that our personality was a reflection of the four hormones (fluids) that make up our bodies. Yellow Bile - bad temper, irritability (choleric) Black bile— gloomy pessimistic (Melancholic) Phlegm--sluggish, non-excitable (phlegmatic Blood—cheerful, passionate (sanguine). If one of these fluids dominated, the personality associated with that fluid would be observed.

According to Allport (1990), a trait is a generalized and focalized neuropsychic system (peculiar to the individual), with the capacity to render many stimuli functionally equivalent, and to initiate and guide consistent (equivalent) forms of adaptive and expressive behaviour." He distinguished traits and types and said that 'unlike traits-types always have bio-social references. A man can be said to have a trait but he cannot be said to have a type. Types exist not in people or in nature, but rather in the eye of the observer. Traits, on the contrary, are considered wholly within the compass of the individual. He broadly divides the traits into Cardinal, Central and Secondary traits.

According to Gheselli (1968) the search for leader traits was not a total failure and several traits do appear to be modestly associated with leadership. Chief among these traits is intelligence. He says that the people who hold leadership positions tend to be somewhat more intelligent. In his study, he emphasized significant correlations between leadership and traits of intelligence, supervisory ability, initiative, self-assurance and individuality in doing a work but suggested that extremely higher or lower intelligence reduces the leadership qualities.

Henry Fayol (1949) in his trait approach identified three qualities: physical qualities such as health, vigour; mental qualities such as ability to understand and learn judgment, mental vigour and adaptability; moral qualities such as energy, firmness, willingness to accept responsibility, initiative, loyalty, tact and dignity". According to Jim Evans (1990) a leader, if he wants to be effective, must cultivate the following ten characteristics. (i) a listening habit, (ii) a learning habit, (iii) a motion habit, (iv) a wow! Habit, (v) a commitment habit, (vi) a confidence habit, (vii) a funny habit, (viii) a vision habit, (ix) a diverse habit and, (x) character.

Empowerment
Duvall (2001) defines success as achievement, accomplishment and attainment which is a consequence of empowerment. He reveals this consequence in form of success through empowerment as; Individual success in form of leadership’s role performance, Organizational success which is achieved as members of the organization accomplish collective organizational goals and objectives, and as organizational members share a mutually beneficial and satisfying work experience meeting both social and personal growth needs. Further Bartram and Casimir (2007) reveal in their study that empowerment had significant positive correlations with
leadership development. And specifically empowerment was more strongly correlated with the in-role performance of followers than with satisfaction with the leader.

Conceptual Framework

![Conceptual Framework](image)

**Independent Variable**
- Educational
- Income levels
- Rewards

**Dependent Variable**
- Performance of MFIs:
  - Market share
  - Profitability
  - Turnover

**Figure 1: Conceptual framework**

**RESEARCH METHODOLOGY**
This study adopted a cross-sectional survey research design which focused on influence of leadership empowerment on performance of microfinance institutions. The target population for this study were all the 398 microfinance institutions registered with the Association of Microfinance Institutions of Kenya (AMFI) 2015 directory. The study targeted the chief executive offices of the microfinance institutions. The study sampled 10% of the target population. As such the sample size of this study was 398 MFIs spread across the entire country. A standardized questionnaire was used to collect primary data. Regression analysis was done so as to test the relationship between the independent variables and dependent variable. Regression is conducted to analyse the nature and the strength of relationship between each of the independent variables and the dependent variable (Cooper & Schindler, 2006).

\[ Y = B_0 + B_1X_1 + e \]

Where;
- \( Y \) Performance of MFI
- \( X_1 \) Level of Empowerment

**DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF THE FINDINGS**
The study targeted chief executive officers, tellers, field officers, customer care representatives, sales officers, credit officers, business development officers, accountants, loan officers, marketing officers, clerks, managers, collection officers, and branch managers totaling to three hundred and ninety-eight respondents. From the study, three hundred and ninety-one respondents filled-in and returned the questionnaires making a response rate of 98.24%.

The results presented in Table 4.1 indicated that 80.3% of the respondents agreed that they had resources that they needed to do their tasks effectively, 72.4% of the respondents agreed that they were satisfied with the career development opportunities at their institution. Majority of the respondents (73.5%) agreed that their supervisor provided them with adequate supervision to improve their way of working. Moreover, 68.6% of the respondents agreed that their employer provided them with ample opportunity for them to upgrade their skills, while
majority of the respondents (44.2%) disagreed that they were at times not treated fairly by their supervisors.

It was also observed that most of the respondents (63.7%) agreed that the rules and reputations concerning their job were appropriate and flexible, and majority of the respondents (72.8%) agreed that within the institution, they had good opportunities for career development and promotion. Concerning if the senior management team keeps the employees informed about the institution future direction, 71.0% of the respondents agreed to the statement. The researcher wanted to find out from the respondents if training and safe work environment was granted to them. The majority of the respondents 62.0% and 70.9% agreed that training was granted to them after every performance appraisal and were assured of safe and healthy work environment respectively.

**Table 4.1: Influence of Leadership Empowerment as a Leadership Development Practice**

<table>
<thead>
<tr>
<th>Opinion statements</th>
<th>SD %</th>
<th>D %</th>
<th>N %</th>
<th>A %</th>
<th>SA %</th>
<th>Mean</th>
<th>Std. dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>I have the resources that I need to do my job effectively</td>
<td>2.1</td>
<td>8.0</td>
<td>9.6</td>
<td>44.4</td>
<td>35.9</td>
<td>4.04</td>
<td>0.981</td>
</tr>
<tr>
<td>I am satisfied with the career development opportunities at my institution</td>
<td>2.1</td>
<td>7.7</td>
<td>17.8</td>
<td>52.3</td>
<td>20.1</td>
<td>3.81</td>
<td>0.916</td>
</tr>
<tr>
<td>My supervisor provides adequate supervision to improve my way of working</td>
<td>2.3</td>
<td>9.8</td>
<td>14.2</td>
<td>48.4</td>
<td>25.1</td>
<td>3.84</td>
<td>0.987</td>
</tr>
<tr>
<td>My employer provides me with ample opportunity for me to upgrade my skills</td>
<td>3.1</td>
<td>10.1</td>
<td>18.1</td>
<td>44.0</td>
<td>24.6</td>
<td>3.77</td>
<td>1.030</td>
</tr>
<tr>
<td>At times am not treated fairly by my supervisor</td>
<td>17.8</td>
<td>26.4</td>
<td>26.2</td>
<td>18.3</td>
<td>11.3</td>
<td>2.79</td>
<td>1.253</td>
</tr>
<tr>
<td>The rules and reputations concerning my job are appropriate and flexible</td>
<td>2.3</td>
<td>10.4</td>
<td>23.6</td>
<td>47.4</td>
<td>16.3</td>
<td>3.65</td>
<td>0.950</td>
</tr>
<tr>
<td>Within the organization, I have good opportunities for career development and promotion</td>
<td>4.1</td>
<td>6.5</td>
<td>16.6</td>
<td>47.9</td>
<td>24.9</td>
<td>3.83</td>
<td>1.010</td>
</tr>
<tr>
<td>The senior management team keeps me informed about the institution future direction.</td>
<td>3.7</td>
<td>5.2</td>
<td>20.1</td>
<td>47.8</td>
<td>23.2</td>
<td>3.82</td>
<td>0.970</td>
</tr>
<tr>
<td>Training is granted to me after every performance appraisal</td>
<td>5.5</td>
<td>8.8</td>
<td>23.6</td>
<td>46.2</td>
<td>15.8</td>
<td>3.58</td>
<td>1.033</td>
</tr>
<tr>
<td>I am assured of a safe and healthy work environment</td>
<td>4.7</td>
<td>6.5</td>
<td>17.9</td>
<td>40.0</td>
<td>30.9</td>
<td>3.86</td>
<td>1.073</td>
</tr>
<tr>
<td><strong>Average scores</strong></td>
<td>4.8</td>
<td>9.9</td>
<td>18.8</td>
<td>43.7</td>
<td>22.8</td>
<td>3.7</td>
<td>1.020</td>
</tr>
</tbody>
</table>

SD = strongly disagree; D = disagree; N = neutral; A = agree; SA = strongly agree; n=367
Test of Hypothesis

Regression analysis was conducted to determine the proportion of microfinance performance (dependent variable) which could be predicted by empowerment (independent variable). The hypothesis which states that there is no significant influence of empowerment as a leadership development practice on the performance of microfinance institutions in Kenya was used. To test this hypothesis, the model \( Y = B_0 + B_2X_2 + \varepsilon \) was fitted. Table 4.22 shows the regression analysis results between empowerment and firm performance.

Table 2: Regression Analysis results on the Relationship between empowerment and Firm Performance

<table>
<thead>
<tr>
<th>Model summary</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>R</td>
<td>R^2</td>
<td>Adj. R^2</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>0.524^a</td>
<td>0.275</td>
<td>0.273</td>
<td>0.4765</td>
</tr>
</tbody>
</table>

ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>33.302</td>
<td>1</td>
<td>33.302</td>
<td>146.667</td>
<td>&lt;0.001^b</td>
</tr>
<tr>
<td>Residual</td>
<td>87.872</td>
<td>387</td>
<td>0.227</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>121.174</td>
<td>388</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.460</td>
<td>0.134</td>
<td>10.872</td>
<td>0.001</td>
</tr>
<tr>
<td>Empowerment</td>
<td>0.432</td>
<td>0.036</td>
<td>12.111</td>
<td>&lt;0.001</td>
</tr>
</tbody>
</table>

^a. Dependent Variable: Satisfaction performance
^b. Predictors: (Constant), Empowerment

Table 2 presents the coefficients of the regression results and it is evident that empowerment has significant influence on performance of microfinance institutions, \( F (1, 367) = 146.667, p < 0.001 \). The standardized coefficients of the regression was \( B=0.524 \ p<0.001 \) indicating that every unit increase in leadership empowerment, there was a corresponding increase in firm performance by about 0.524. With \( R^2 = 0.275 \), the model implies empowerment explained 28% of the variation in performance. Therefore the model failed to explain 72% of the variation, meaning that there are other factors associated with organization performance which were not fitted in the model. The model equation is therefore, \( Y = 1.460 + 0.524X_2 \)

Where \( Y \) is organization performance and \( X_2 \) is empowerment.

Since the \( p \)-value \( p<0.05 \), the null hypothesis was rejected and it was concluded that there is a statistically significant relationship between empowerment as a leadership development practice on the performance of microfinance institutions in Kenya. The empirical findings of
this study indicated that empowerment statistically and significantly influenced firm performance of microfinance institutions in Kenya. When a microfinance institution in Kenya considered leadership empowerment, firm performance increased. These results are consistent with previous studies investigating the influence of empowerment on overall firm performance. The findings of a study conducted by Bartram and Casimir (2007) reveal that empowerment had significant positive correlations with leadership development. And specifically empowerment was more strongly correlated with the in-role performance of followers than with satisfaction with the leader. It is, therefore, the opinion of the researcher that the empowerment as a leadership development practice should be aligned with the expectations as well as needs if of microfinance institutions in Kenya if it is to be achieved as the ultimate aim of the financial institutions since the study has established that empowerment and performance of finance institutions.

**SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

One of the basic practice of leadership development, is employee empowerment which entails giving frontline employees the authority to make decisions once reserved only for managers. Organizational success which is achieved as members of the organization accomplish collective organizational goals and objectives, and as organizational members share a mutually beneficial and satisfying work experience meeting both social and personal growth needs. Based on the findings of this study, majority of the respondents agreed that they had resources that they needed to do their tasks effectively, they were satisfied with the career development opportunities at their institution, their supervisor provided them with adequate supervision to improve their way of working and their employer provided them with ample opportunity for them to upgrade their skills. The results indicated that leadership empowerment positively and significantly influenced firm performance of microfinance institutions in Kenya. The regression model of empowerment on performance of microfinance institutions was found to be significant with empowerment explaining 27.5% of the variation in performance. Hence for every unit increase in leadership empowerment, there was a corresponding increase in firm performance by 0.432. Multiple regression analysis confirmed that empowerment had a significant and positive relationship with performance of microfinance institutions in Kenya. The empirical findings of this study indicate that empowerment statistically and significantly influenced firm performance of microfinance institutions in Kenya hence increase in leadership empowerment leads to increase in firm performance.

The results indicated that leadership empowerment significant influenced firm performance of microfinance institutions in Kenya. The regression model of empowerment on performance of microfinance institutions was found to be statistically significant at 5% confidence level. The use empowerment would improve the career development opportunities and would provide employees with adequate supervision to improve their way of working with their employer. Based on the findings of this study, it can, therefore, be concluded that majority of the microfinance institutions in Kenya sampled in this study lay more emphasis on leadership empowerment which has a positive influence on performance of the firm.
Recommendations
The study recommends that there is need to empower workers with necessary resources, adequate supervision, ample opportunity, fair treatment, well stipulated rules, opportunities for career empowerment and promotion, informed on the strategic plan of the microfinance.

REFERENCES


