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MANAGEMENT AND LEADERSHIP

MODERATING EFFECT OF LEADERSHIP STYLE ON THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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ABSTRACT

Background of the Study: Leadership style is the method that a leader uses when providing direction, implementing plans and motivating people. In Kenya, the environment in which insurance companies operate has been fraught with various corporate governance and leadership challenges that have hindered its progress.

Objective of the Study: This study sought to establish the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya.

Research Methodology: The philosophical foundation of this study was positivism, where quantitative data was used. Cross-sectional survey design was adopted for this study. The study population comprised of fifty two (52) insurance companies in Kenya licensed by the Insurance Regulatory Authority (IRA) as at December, 2017. The respondents were the senior managers and the general employees. This study utilized primary that was collected using questionnaires.

Results and Findings: The findings indicated that leadership style has a significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya. The study also established that leadership style has a significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya.

Conclusion and Recommendations: The study concluded that leadership style has a positive and significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya. This study advocates that leadership style be taken seriously by the managers in organizations.

Keywords: *Leadership style, Corporate Governance, Performance, Insurance Companies & Kenya*

1.1 INTRODUCTION

Leadership style is the method that a leader uses when providing direction, implementing plans, and motivating people (Ramchunder & Martins, 2014). A leadership style is considered as a leader's characteristic behaviors when directing, motivating, guiding, and managing groups of people. Leadership style is the manner and approach of providing direction, implementing plans, and motivating people. From the employees' perspective, it includes the total pattern of explicit and implicit actions performed by their leader (Northouse, 2015).

There are various types of leadership styles which include democratic leadership style, autocratic leadership style, Laissez-Faire leadership style, Transformational leadership style and Transactional leadership style (Nanjundeswaraswamy & Swamy, 2014; Holten, & Brenner, 2015). Democratic leadership style is where people take a more participative role in the decision-making process. In Democratic leadership style is given the opportunity to participate, ideas are exchanged freely, and discussion is encouraged (Khan *et al*, 2015). However, the leader maintains the final decision-making authority. Using this style is not a sign of weakness, rather it is a sign of strength that your employees will respect. This is normally used when management have part of the information, and employees have other parts. A leader is not expected to know everything, hence, the reason why firms employ knowledgeable and skilled people. Using this style is of mutual benefit as it allows them to become part of the team and allows you to make better decisions (Morian *et al*., 2011).

Democratic leadership can lead to better ideas and more creative solutions to problems because group members are encouraged to share their thoughts and ideas (Nanjundeswaraswamy, & Swamy, 2014). While democratic leadership is one of the most effective leadership styles, it does have some potential downsides. In situations where roles are unclear or time is of the essence, democratic leadership can lead to communication failures and uncompleted projects. On the other hand, autocratic leadership style is one where the leaders tell their employees what they want done and how they want it accomplished, without getting the advice of their followers (Puni, Ofei, & Okoe, 2014). Some of the appropriate conditions to use this style is when you have all the information to solve the problem, you are short on time, and/or your employees are well motivated.

Laissez-faire leadership is where the leader allows the employees to make the decisions. However, the leader is still responsible for the decisions that are made. This is used when employees are able to analyse the situation and determine what needs to be done and how to do it. This is not a style to use so that leaders can blame others when things go wrong, rather this is a style to be used when a leader fully trusts and have confidence in the people below them (Van Wart, 2012). Transformational leadership style is the leadership style in which leaders encourage, inspire and motivate employees to innovate and create change that will help grow and shape the future success of the company (McCleskey, 2014). This is accomplished by setting an example at the executive level through a strong sense of corporate culture, employee ownership and independence in the workplace. Transactional leadership style on its part is a leadership style that focuses on supervision organization and performance. Transactional leadership is a style of leadership in which leaders promote compliance by followers through both rewards and punishments. Through a rewards and punishments system, transactional leaders are able to keep followers motivated for the short-term (Long, Yusof, Kowang, & Heng, 2014).

There are four key components of a good leadership style which are worldview, strengths, ethics, and communication. The worldview component of leadership style provides that leadership requires developing an understanding of a leaders own worldview as well as the worldviews of others (Ramchunder & Martins, 2014).

1.2 STATEMENT OF THE PROBLEM

The insurance penetration declined in the last five years from 2.79 % in 2015 to 2.37 % in 2019 (AKI, 2020). The decline being mainly attributed to reduced insurance uptake and malpractices coupled with poor corporate governance practices and leadership (Swiss Re Sigma, 2020). This is despite the fact that insurance is a critical factor to the development of the financial sector in Kenya and contributes to the achievement of Vision 2030 goals under the economic pillar (IRA, 2020). Further, the insurance sector in Kenya has had a turbulent history and challenges arising out of premium undercutting, fraud, low penetration and unpaid claims. The environment in which insurance companies operate has been fraught with various corporate governance and leadership challenges that have hindered its progress. Therefore, a deliberate effort has to be made to avoid future corporate mismanagement and company failures given the important role insurance plays in the economy of Kenya especially towards the development of the small and large scale firms through ensuring financial security. The challenges call for effective corporate governance in insurance companies in Kenya in order to spur performance.

Previous studies create research gaps; Koech and Namusonge (2012) conducted a study on the effect of leadership styles on performance in state-owned corporations in Kenya. The study used leadership style as the independent variable and focused on the three main leadership styles. The current study investigated whether leadership style has a moderating influence on the association between corporate governance and performance of the insurance companies in Kenya. Kamau, Machuki and Aosa, (2018) conducted a study on the iinfluence of corporate governance on the performance of financial institutions in Kenya. The study investigated the relationship between corporate governance and firm performance without the moderating variable. This study addressed these gaps by introducing leadership style as moderating variable to examine whether corporate governance influence on performance in the insurance companies in Kenya can be improved by adopting effective leadership style.

1.3 OBJECTIVE OF THE STUDY

The objective of the study was to establish the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya.

2. LITERATURE REVIEW

2.1 Theoretical Literature Review

Full Range Leadership Theory

The full range leadership theory was first conceptualized by Burns (1978) and later expounded by Bass (1985). Bass (1985) conceptualized the works of Burns (1978) by developing a model of transformational and transactional leadership, recently named as the “full range leadership model” (Bass & Avolio, 1997). The full range leadership theory, also referred to as “transformational-transactional leadership theory”, has been an area of interest amongst researchers. Burns (1978) conceptualized two factors to distinguish “ordinary” from “extraordinary” leadership that is transactional and transformational leadership. This theory advocates that the managers who are fascinating and inspire workers by motivating them, treat them as individuals, and arouse their rational needs are transformational leaders (Tipu *et al*., 2012) The second category of managers is transactional who identify chores and monitor performance to attain the duties by offering compensation (Moriano *et al*., 2011). The last and third category in this theory is the leadership style which avoids participation is named as liassez-faire style of leadership.

The 'full range leadership theory' (Bass & Avolio, 2004) defines the three styles of leadership behaviors namely transformational, transactional and non-transactional laissez faire. Transformational leadership stands on four pillars of idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. Transactional leadership comprises the aspects of contingent reward, management by exception active and passive. Transformational and transactional leadership is seen by various writers as either competing or complementary. Various studies report transformational leadership style to be more efficient than transactional leadership style and is positively correlated to the performance of businesses (Benjamin, 2006).

Initially, the FRL theory consisted of six leadership factors in 1985 (Antonakis *et al*., 2003). For example, Bass equated transformational leadership with three leader factors (charisma, intellectual stimulation, and individualized consideration. Then Avolio and Bass (1991) replaced the transformational leader behavior, charisma, with idealized influence (attributed and behavioral). The original two leader factors associated with transactional leadership (contingent reward and management-by-exception), would be modified by splitting management-by-exception into an active and passive leader aspect (MBEA and MBEP), and therefore, totaling three leader factors. The final leader factor, laissez-faire, consisted of a passive/avoidant leadership behavior. Consequently, Avolio and Bass (1991) modified the FRL theory from six to nine leadership factors. The revised version or the current version of the FRL theory consists of three leadership typologies: transformational, transactional, and laissez-faire leader styles (Sarver & Miller, 2014; Swid, 2014). In addition, the nine leadership factors associated with transformational (five factors), transactional (three factors), and laissez-faire (one factor), establish the theoretical basis for this research study, and aid in better understanding the leader– follower relationship of the multilevel rank structure within policing organizations.

This theory highlights all the different types of leadership styles for different situations, its therefore appropriate since the researcher was able to compare the kind of leadership at firms and what has been documented and evaluate whether there is any link between the leadership styles and performance.

2.2 Empirical Literature review

Ghafoor *et al*., (2016) studied transformational leadership, employee engagement and performance among employees and managers of telecom companies in Pakistan. The study findings indicated significant relationship between transformational leadership, employee engagement practices and employee performance. The results also supported the mediation of psychological ownership in relationship of these variables. The study created a methodological gap as it was conducted using a multiple regression analysis which does not bring out the moderating effect of leadership. The current study therefore introduced the moderating effect steps that systematically assessed the moderating effect of leadership style on the relationship between Corporate Governance and Performance.

Nasereddin and Sharabati (2016) conducted an empirical review study on the influence of university's leadership styles on governance in India. The purpose of this study was to explore which leadership styles were suitable for universities in the light of governance principles. This study was a qualitative study based on literature review. The study established that there was no precise leadership style that could suite all organizations and industries, or even could be fit for one organization, because leadership style depended on leader, context, followers and culture. In universities at least three leadership styles could be used based on the leaders and followers whatsoever the context and culture which was shared leadership style among the governance board members, transformational leadership style for academicians and mid-level management, and finally transactional leadership style for other workers who performed routine work. The study presented a methodological gap based on the empirically established findings that did not provide statistical hypothesis testing on the leadership and thus presented inconclusive findings. The current study addressed this by conducting a statistical hypothesis on the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya.

Khoza and Adam (2017) conducted a study on the influence of leadership styles on governance in State-Owned Enterprises. The exploratory study was conducted on 212 respondents drawn from state owned enterprises in Nigeria. The study utilized questionnaires to collect primary data. The study found that leadership styles were autocratic, bureaucratic, democratic or charismatic. The study also established that leadership styles provided the motivation and impulsion to make corporate governance effective in the organizations. The findings further noted effective public sector management reforms to have always depended to some degree on leadership styles, and that leaders with transformative characteristics get their followers to perform above and beyond expectations and express high performance expectations. Leaders who exhibit transformational qualities had a positive effect on employee commitment and citizenship behaviour. The study presented a contextual gap arising from the leadership in the state enterprises which may differ from private organizations as outlined by Nanjundeswaraswamy and Swamy (2018).

Osiyemi (2016) investigated the relationship between leadership styles, corporate governance and performance of different organizations in Nigeria. Using a descriptive correlation method, the study was conducted on a total of ten (10) organisation's which were randomly selected from a cross section of 22 organisation selected as the best / most valued organisation in Nigeria which included both indigenous and multinational covering different sectors such as Banking, Telecommunications, Oil and Gas, manufacturing.. The data generated from interviews and questionnaires were analyzed using quantitative and qualitative methods. The results showed that leadership styles were very important in enhancing corporate governance and consequently influencing performance. The study presented a contextual gap arising from the generalized organizations from the Banking, Telecommunications, Oil & Gas, Manufacturing which differ in practice (Naveed, 2019). The current study was done on 52 organizations in the insurance industry therefore was more focused and the results generalizable.

Oguntibeju, Ibitoye and Atoyebi (2018), also did a study on the relationship between leadership styles, corporate governance and entrepreneurship development in Nigeria using primary data by employing structured questionnaires to obtain information from the respondents in Lagos State as a population representative. A total of 100 respondents were sampled at Zenith Bank Plc and Bank of Industry (BOI) both in Lagos State, to participate in this reseacrh. The data obtained through the questionnaires were analyzed and interpreted using simple percentage tables for tabular analysis and Spearman's Rank Correlation Coefficient for testing of the formulated hypotheses so as to know more about the topic understudy. The study established that effective leadership and good corporate governance determined the success of an organization. The study however was done on only two organizations in the banking sector in Nigeria, which made the results not generalizable. The study by Oguntibeju, Ibitoye and Atoyebi (2018) created a conceptual gap as it focused on entrepreneurship development as the dependent variable. The curent study however looked at performance as the dependent variable.

2.3 Hypothesis of the Study

H_0: Leadership style has no significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya.

2.4 Conceptual Framework

The study's conceptual framework indicates the relationship between Corporate Governance as the independent variable, leadership style as the moderating variable and organization performance as the dependent variable. The conceptual model is illustrated in Figure 1.

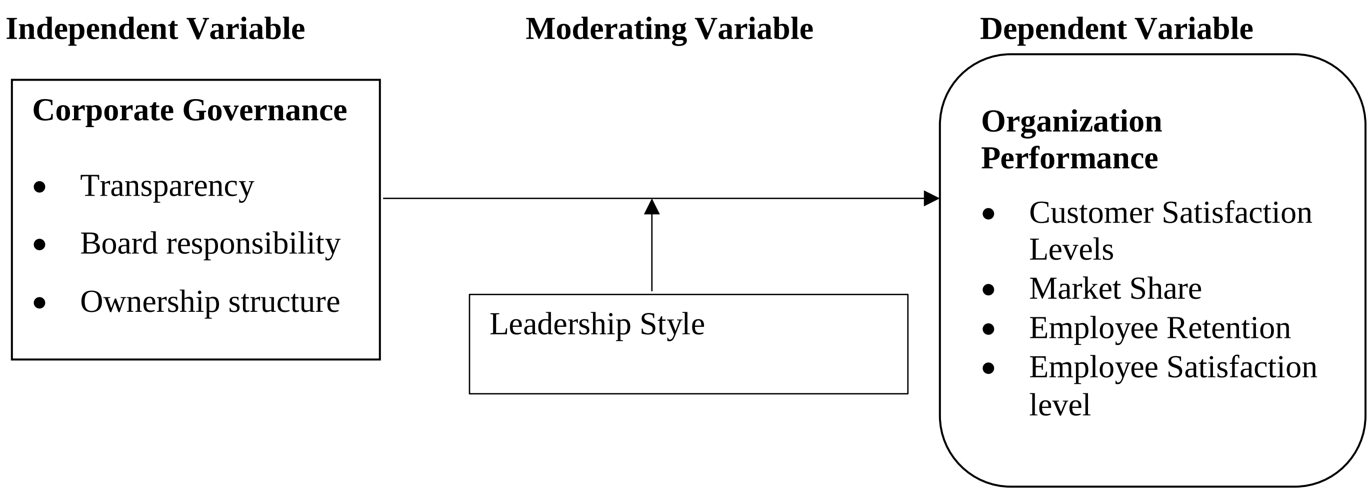

Figure 1: Conceptual Model

3. RESEARCH METHODOLOGY

The philosophical foundation of this study was positivism, where quantitative data was used. This study thus adopted the positivist philosophy which is founded on objectivity, precision and scientific rigor to develop knowledge as opposed to the phenomenological approach which focusses on personal knowledge and subjectivity (Van, 1997). The cross-sectional survey design was adopted for this study in order to provide relevant information of the extent to which corporate governance influences performance of insurance companies in Kenya. The study population comprised of fifty two (52) insurance companies in Kenya licensed by the Insurance Regulatory Authority (IRA) as at December, 2017. The respondents were the Senior Managers and the general employees. According to IRA (2017) report the total number of employees in the registered insurance companies was 7,411 where 7,307 were general employees. These general employees were selected using Kothari's sampling formulae where a sample of 365 was realized.

Census method was used to obtain the number of senior management where a CEO and Human Resource Managers were used from each insurance company (52*2=104). From the total of 365 general employees, 2 were selected from each of the 52 insurance company totaling to 104. This was done since the general employees work in the same organization and their responses were likely to be the same. Stratified random sampling was used to obtain the 104 general employees from the insurance companies. 20 participants were used for piloting and therefore, the total sample size was 188 made of 94 respondents in senior management and 94 from general employees. Table 1 shows the distribution of the respondents.

Table 1: Distribution of the Respondents

Category	Position	No. of Insurance Firms	Number	Pilot	Total
Senior Managers	CEO	52	1*52	5	47
	HRM	52	1*52	5	47
General Employees	Junior	52	2*52	10	94
Total				**20**	**188**

The study utilized primary data collected using questionnaires. Prior to running a regression model pre-estimation and post estimation tests were conducted. The diagnostic tests conducted in this case were; normality test, multicollinearity, heteroscedasticity and linearity tests. The diagnostic analysis results met the requirements for conducting Classical Linear Regression Model.

The moderation model checks how the "prediction of a dependent variable, P, from an independent variable differs across levels of a third variable, L" (Baron & Kenny, 1986). Moderating variable affects the strength and direction of the relationship between predictors and an outcome thus increasing, reducing, or affecting the influence of the predictor variable. Moderation depicts the interaction between variables, thus the test involves determination of the statistical significance of the interaction term (Whisman & McClellard, 2005). The model for the study:

$P = \beta_0 + \beta_1 CG + \varepsilon$
$P = \beta_0 + \beta_1 CG + \beta_2 LS + \varepsilon$
P= Performance
CG = Corporate Governance
L = Leadership Style
β_0 = Constant
β_{1-2}= Beta coefficients
ε = Error term
Finally, the final model was used to estimate and give the direction and effect of the moderator on the independent variable and the total effect (of the moderator) on the dependent variable by interacting the moderating variable and the predictor variable.

$P = \beta_0 + \beta_1 CG + \beta_2 L + \beta_3 CG * L + \varepsilon$
P = Performance
CG = Corporate Governance
CG* L= Corporate Governance x Leadership Style
L = Leadership Style
β_0 = Constant
β_{1-3}= Beta coefficient
ε = Error term

4. RESULTS AND FINDINGS

The study realized a success rate of 85.11%. According to Mugenda and Mugenda (2003) and Kothari (2004), a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Thus, 85.11% was considered very good for the study.

4.1 Correlation Analysis

Correlation analysis was carried out to determine the association between the variables, corporate governance, leadership style and organization performance. The mean score for each of the independent variables was calculated and the Pearson's correlation obtained using SPSS. The correlations were done at 0.05 significance level with one asterisk (*) or a 0.01 significance level with two asterisks. To determine whether the correlation between variables is significant, one needs to compare the p-value to the significance level used. A significance level (denoted as α or alpha) of 0.05 works well. The p-value indicate whether the correlation coefficient is significantly different from 0 or not. The correlation results are presented in Table 2.

Table 2: Correlation Matrix

Variables		Organization Performance	Corporate Governance	Leadership
Organization Performance	Pearson Correlation	1.000		
	Sig. (2-tailed)			
Corporate Governance	Pearson Correlation	0.718**	1.000	
	Sig. (2-tailed)	0.000		
Leadership	Pearson Correlation	0.770**	0.722**	1.000
	Sig. (2-tailed)	0.000	0.000	

The results in Table 2 indicated that corporate governance was positively and significantly associated to performance ($r=0.718$, $p=0.00<0.05$). Leadership style was positively and significantly associated to performance ($r=0.770$, $p=0.000<0.05$). This was an indication that corporate governance and leadership style portrayed a strong connection with performance.

4.2 Hypothesis Testing

The objective of the study was to establish the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya. The hypothesis stated in the null form was:

H_0: Leadership style has no significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya.

The moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya was analyzed using leadership style (LS). The results for the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya. Regression analysis was done using SPSS by using average mean scores of Corporate Governance, Leadership Style and performance. The analysis was done in three models. In the first model, corporate governance was predicted against performance. In the second model, corporate governance and Leadership Style were predicted against Performance. On the third model, corporate governance, Leadership Style and the interaction term CG*LS were regressed against Performance. The results are presented in Table 3.

Table 3: Regression Results of Leadership Style and CG

		Coefficients	
Variable	**Model 1**	**Model 2**	**Model 3**
Corporate Governance	3.622(0.000)	1.703	1.17 (0.024)
Leadership	-	2.684	1.87(0.001)
CG*LS	-	-	0.257(0.006)
Constant	-4.669	-6.862	-5.567
Rsquared	0.515	0.648	0.681
F-Statstic	82.935	70.88	54.101
Sig	0.000	0.000	0.000

The results in Table 3 indicated that the first model of corporate governance and performance was significant with an Rsquare of 51.5% and this supported by F=82.935 and p-value of 0.000<0.05. In the second model, the findings indicated that the regression model of corporate governance (β=1.703, p=0.000) and Leadership style (β=2.684, p=0.000) were significant with an Rsquare of 0.648 and supported by F=70.88. In the third model, the findings show that corporate governance (β=1.170, 0.024), Leadership style (β=1.870, 0.001) the moderating effect of leadership (β=0.257, 0.006) were significant with an R squared of 68.1% and supported by F=54.101. The fitted models are;

Model 1: $\mathrm{P} = -4.669 + 3.622\mathrm{CG}$

Model 2: $\mathrm{P} = -6.862 + 1.703\mathrm{CG} + 2.684\mathrm{TLS}$

Model 3: $\mathrm{P} = -5.567 + 1.170\mathrm{CG} + 1.870\mathrm{LS} + 0.257\mathrm{CG} * \mathrm{LS}$

Since the P value of the interaction term (CG* LS) is 0.006< 0.05, then it confirms that leadership style moderates the relationship between corporate governance and performance. This was also supported by the Rsquared, which improved from 64.8 % before including the moderating variable to 68.1% after moderation. Therefore, this led to the rejection of the null hypothesis that leadership style has no significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya. Thus, the study established that leadership style has a significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya.

4.3 Discussion

The objective of the study was to establish the moderating effect of leadership style on the relationship between corporate governance and performance of insurance companies in Kenya. findings showed that the regression model of performance on corporate governance is significant. Model 2 findings showed that the regression model of corporate governance and Leadership style were significant. Model 3 findings showed that corporate governance, Leadership style the moderating effect of leadership style were significant. Since the P value of the interaction term (CG*LED) is below 0.05, then it confirms that leadership style moderates the relationship between corporate governance and performance. This is also supported by the Rsquared, which improved from 64.8 % before including the moderating variable to 68.1% after moderation. Therefore, this leads to the rejection of the null hypothesis that leadership style has no significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya. Thus, the study establishes that leadership style has a significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya.

This is in line with Mansouri (2016) who examined the mediating role of transformational leadership on HRM practices and performance of ICT companies in Malaysia and found a positive correlation. The major HRM constructs of the study comprised of performance appraisal, staff training, rewards and compensation, while transformational leadership constructs namely; inspirational motivation, intellectual stimulation, individualized attention and supportive leadership were studied. The results also align with those of Tawaha (2016) who established a strong impact of the leadership styles and the strategic alignment on the financial performance. Moreover, the strategic alignment variable had a positive impact on the financial performance. However, the results showed that the leadership styles have no impact on financial performance through the strategic alignment in the Jordanian insurance companies. In contrast, Adeola and Kevin (2016) found that employees' perception of leadership style has no significant influence on corporate governance structure and performance of commercial banks.

The results also align with Ghafoor *et al*., (2016) who studied leadership, employee engagement and performance among 270 employees and managers of telecom companies in Pakistan and the findings indicated significant relationship between leadership, employee engagement practices and employee performance. The results also supported the mediation of psychological ownership in relationship of these variables. Zhang (2015) study on the relationship between perceived leadership style and employee engagement among 439 sales assistants in Sidney Australia showed that employee engagement is associated with an employees' perception of leadership style in his or her direct supervisor, negatively when classical or leadership styles are perceived and positively in the case of visionary or organic leadership. Moreover three employee characteristics moderated the relationship between the perceived leadership style and employee engagement in different ways.

The findings agree with Nasereddin and Sharabati (2016) who conducted a study on the influence of university's leadership styles on governance in India and established that there was no leadership style that could suite all organizations and industries, or even could be fit for one organization, because leadership style depended on leader, context, followers and culture. In universities at least three leadership styles could be used based on the leaders and followers, whatsoever the context and culture which was shared leadership style among the governance board members, leadership style for academicians and mid-level management, and finally transactional leadership style for other workers who performed routine work. The results are in line with Khoza and Adam (2017) study also established that leadership styles provided the motivation and impulsion to make corporate governance effective in the organizations. The findings further noted effective public sector management reforms to have always depended to some degree on leadership styles, and that leaders with transformative characteristics get their followers to perform above and beyond expectations and express high performance expectations. Leaders who exhibit transformational qualities had a positive effect on employee commitment and citizenship behaviour. The results are in line with Osiyemi (2016) results showed that leadership styles were very important in enhancing corporate governance and consequently influencing performance.

5. CONCLUSION

The study concludes that leadership style has a positive and significant moderating effect on the relationship between corporate governance and performance of insurance companies in Kenya. Thus, the role of leadership style in insurance companies is crucial in terms of creating a vision, mission, determination and designing strategies, policies, and procedures to achieve the objectives effectively and efficiently along with directing and coordinating the efforts and activities. Insurance companies need to embrace appropriate leadership style in order to improve performance and excellence.

6 RECOMMENDATIONS

The moderating effect of leadership style on the relationship between corporate governance and organization performance provides direction on managers to ensure adoption of the appropriate leadership that drives performance of the organization. This study therefore advocates that leadership style be taken seriously by the managers in organizations. The findings of the study are a useful guide for developing training programs for the leaders on the need for good corporate governance and mechanisms of improving performance through creating competitive advantage.

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