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An Empirical Survey of the Relationship between Transformational Leadership and Staff Retention in the Context of Microfinance Institutions in Kenya

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Abstract

Retention of the desired staff is a key determinant of success in microfinance institutions in the modern competitive world. Notably, these institutions experience poor staff retention due to inappropriate leadership. Investigations on the effect of transformational leadership on staff retention have largely considered transformational leadership as a unidimensional construct than its respective dimensions of idealized influence, inspirational motivation, intellectual stimulation and individualized consideration. This study therefore investigated the effect of transformational leadership on staff retention in microfinance institutions in Nairobi City County, Kenya, specifically the effect of idealized influence, inspirational motivation, intellectual stimulation and individual consideration on staff retention. The underpinning theories were Transformational Leadership Theory, Leader-Member Exchange Theory, Social Exchange Theory, and Resource-Based View Theory. The study was guided by the positivism philosophy and descriptive and explanatory research designs. A total of 298 respondents was obtained through census sampling from the 12 accessible microfinance institutions licenced by the Central Bank of Kenya in Nairobi City County. Primary data was collected from senior, middle and lower-level management staff in the headquarters of these institutions, using structured questionnaires. The data were analysed using descriptive and inferential statistics, while hypotheses were tested at 5% significance level using regression analysis. The study established that transformational leadership significantly predicts staff retention through idealized influence, intellectual stimulation and individualized consideration. The study recommends that the policy makers in the microfinance institutions should align transformational leadership practices with the staff retention strategies for the success of these institutions.

Keywords: Transformational Leadership, Idealized Influence, Inspirational Motivation, Intellectual Stimulation, Individualized Consideration, Staff Retention, Microfinance

1. Introduction

Microfinance institutions (MFIs) have been identified as a potential global remedy in alleviating poverty by providing financial services to those who cannot access mainstream banking (Rasel & Win, 2020), as well as

fighting feminization of poverty (Khan et al., 2020) where more women have been perceived as poor than men. However, the success of these institutions largely depends on their ability to retain their well-trained, qualified and talented staff for the longest period of time (Hasija et al., 2019). Unfortunately, staff retention has remained a major challenge in many institutions, both at the global, regional and national level (Edirisooriya, 2020). There are numerous benefits accruing from increased staff retention including undisrupted running of the organization which would otherwise be disrupted by replacing leaving staff and reduced costs of hiring and training new staff (Wijesiri et al., 2019). This motivates the investigation of the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi, Kenya. Since poor staff retention is often attributed to inappropriate leadership and poor management among others (Kayembe et al., 2021), transformational leadership is presented as a viable solution to enhancing staff retention in MFIs.

Staff retention is defined by Devi (2020) as the process through which leaders inspire staff to continue working in their institutions for the longest period of time, while Vu and Nwachukwu (2020) consider it as a deliberate effort to create a conducive environment where staff is influenced to remain working in their institutions. This implies that leaders should be intentional in creating an environment where their staff feels inspired to remain in their institution. The study adopts intention to stay, staff satisfaction, perceived organizational justice, organizational commitment as well as staff engagement as measures of staff retention as adopted by previous studies (Dahleez et al., 2021).

Transformational leadership has been defined from divergent perspectives: It is an interaction between a leader and a follower that results in their mutual elevation of morality and motivation (Northouse, 2016), the process by which a leader empowers followers to perform better than they thought they are capable of performing (Mwesigwa et al., 2020), and a leadership that transforms a leader's and follower's interests from self-aggrandizing to altruistic interests (Ma et al., 2020). Although past conceptualization of the transformational leadership construct has only focused on its bright side, extant literature exposes its negative side such as causing employees' burnout and stress by influencing them to work for too high targets (Odumeru & Ifeanyi, 2013). This study enhances the conceptual framework to emphasize the need to uphold behavioural integrity in response to the negative side criticism. Unlike the school of thought that adopts transformational leadership as a unidimensional construct (Abouraija & Othman, 2017), this study investigates the role of each of the four dimensions of transformational leadership namely idealized influence, inspirational motivation, intellectual stimulation and individualized consideration in order to resolve its conceptualization ambiguity identified by Odumeru and Ifeanyi (2013).

Idealized influence is seen as the process by which a leader creates an emotional connection with their followers in a manner that the followers admire the leader and are aligned with both the leader's and organization's goals and values (Okoli et al., 2021). This dimension is further conceptualized into two sub-dimensions, namely idealized influence attributed which focuses on how followers perceive their leader's abilities, and idealized influence behaviour which considers the leader's actual behaviour that makes them role-model to the followers (Brown et al., 2017). It follows that how followers perceive their leaders is as important as how the leaders really are, in influencing their followers' desired behaviour.

Inspirational motivation is the process by which a leader inspires and motivates the followers to perform their tasks enthusiastically, perform tasks better, and embrace the organization's vision so that they prioritize others' interests before self-aggrandizing interests (Edirisooriya, 2020). A leader can therefore use inspirational motivation to create follower's loyalty to the organization, which is an antecedent to staff retention.

Intellectual stimulation is the domain through which leaders encourage creative and innovative ways of solving problems, so that the followers question status quo and existing values (Mwesigwa et al., 2020). It therefore encourages followers' viewpoints without criticizing them in public.

Individualized consideration is deployed by leaders in mentoring followers, by focusing on their individual needs and diversity thus enabling them to achieve their goals (Okoli et al., 2021). Such followers are likely to perceive organizational justice due to the individualized attention of their leaders, an aspect regarded in this study as an indicator of staff retention (Gupta & Singh, 2018).

1.1. Statement of the problem

Microfinance institutions have continued to experience poor staff retention at global, regional and national levels due to inappropriate leadership, poor governance practices, low staff engagement and lack of staff loyalty (Odunayo, 2019). Dechawatanapaisal (2018) further observes that globalization has led to increased workforce mobility and consequently the challenge of retaining desired and well trained staff. In Kenya, Gathondu et al. (2018a) noted a turnover rate of 25% to 30% in the context of microfinance institutions, attributing it to low staff commitment. This affects negatively the success of these microfinance institutions, hence slowing down the achievement of Kenya's Vision 2030 (AMFI-K, 2020), and global sustainable development goals (SDGs) (Javeed et al., 2021), particularly poverty reduction. This compounds the need to improve staff retention in the MFIs.

The study addresses two conceptual gaps observed from the previous studies. First, most studies have investigated the undesired aspect of staff turnover, leaving out the desired aspect of staff retention (Gan & Yusof, 2019), yet the two are not equivalent. Nyasunda and Atambo (2020) allude to the fact that there is scarcity of empirical investigation on staff retention in the context of microfinance institutions in Kenya. The second conceptual gap is traced in the conceptualization of transformational leadership construct, where Odumeru and Ifeanyi (2013) notes ambiguity of the roles of each of its four dimensions. Most studies have considered the effect of transformational leadership as a unidimensional construct, leaving out the effect of the individual dimensions of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Afshari, 2021). This study investigates the effect of each of the four dimensions on staff retention in addition to the unidimensional construct of transformational leadership.

There exists a contextual gap that has not been exhaustively investigated. With regard to this gap, Gathondu et al. (2018b) remarks that empirical studies that relate transformational leadership and staff retention in microfinance institutions are scanty. Most studies conducted in this sector are theoretical, lacking empirical support (Nuo & Hee, 2020). There is, thus, a dire need to fill the outlined knowledge, conceptual and contextual gaps in order to enhance more staff retention in the microfinance institutions sector.

2. Literature Review

2.1. Theoretical Review

This study was underpinned by four theories namely Transformational Leadership Theory (TLT), Leader-Member Exchange (LMX) Theory, Social Exchange Theory (SET), and Resource-Based View (RBV) Theory.

2.1.1. Transformational Leadership Theory

Transformational Leadership Theory was coined by James Burns in 1978 where it was used in political context by leaders to influence their followers, and later extended to organizational context by Bernard Bass in 1985 (Lussier & Achua, 2010). The theory states that a leader has the ability to influence his followers to achieve more than what they earlier imagined possible, by changing their attitudes, values, and beliefs (Mwesigwa et al., 2020). This is achieved through the four dimensions of transformational leadership, that is idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (Bass & Riggio, 2006). Idealized influence has two sub-dimensions of idealized influence behaviour and idealized influence attributed and makes leaders to be admired and respected by their followers. Inspirational motivation enables a leader to optimistically and enthusiastically share their envisioned future. Intellectual stimulation enables the followers to solve problems in innovative and creative ways, by questioning their long-held status quo. Through individual consideration, a leader acts as a coach and mentor, recognizes the diverse needs of the followers, and creates a conducive environment for the followers to thrive.

Critiques of this theory aver that it is partisan in that it only emphasises the positive organizational outcomes and not its negative outcomes such as stress and burnout of the followers (Odumeru & Ifeanyi, 2013). Berkovich

(2016) identifies conceptual weaknesses in the theory, arguing that it leads to a logical deductive loop by defining transformational leadership as effective yet it is prone to followers' judgement through its idealized influence attributed dimension. Further, the theory does not clearly explain how the four dimensions play their roles. Additionally, the theory is not empirically distinctive since it is often used together with other forms of leadership such as participative leadership (Berkovich, 2016).

Edirisooriya (2020) used the Transformational Leadership Theory to establish the effect of transformational leadership on retention of talent in the ICT industry in Sri Lanka, noting that all its four dimensions had positive significance on talent retention in the industry. In Uganda, Mugizi et al. (2019) used the theory to examine the relationship between leadership style and teachers' retention, noting a positive significant correlation between the two variables which implies that a transformational leader can achieve the desired organizational outcomes such as staff retention. Locally, the theory was used by Okoth (2018) to establish how transformational practices were implemented in the curriculum in Siaya County in Kenya. The study revealed that head teachers used idealized influence to empower teachers to work for the general good of the school, inspirational motivation to build trust that teachers have the ability to handle challenges, intellectual stimulation to make right decisions, and individualized consideration to motivate both students and teachers to work hard in school.

Transformational Leadership Theory was used in this study because it empirically relates to desired outcomes such as work-related attitudes (Walumbwa et al., 2008). Emphasis was laid on the four I's of the Transformational Leadership Theory, namely idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. These sub-constructs were used to guide the study on the effect of transformational leadership on staff retention in microfinance institutions.

2.1.2. Leader-Member Exchange Theory

The leader-member exchange (LMX) Theory explains the nature of the relationship that develops with time between the leader and each follower (Yukl, 2010). The main proponents of this theory are Graen and Cashman in 1975 who opined that such relationships depend on compatibility and dependability of the parties, and Dansereau, Graen, and Haga in 1975 who added personality factors to the relationship (Yukl, 2010). Walumbwa et al. (2005) argue that the LMX relationship results from personal understanding between the leader and the follower, such that the employees respect the leaders.

The theory was used by Nandedkar and Brown (2017) to investigate the relationship between organizational citizenship behaviour and employees' turnover. The results showed that employees who possessed high LMX with their supervisors felt valued and got satisfied to the extent that they were more inclined to remain in their organization. On the other hand, employees who possessed a low LMX with their supervisors felt less valued and were more inclined to quit the organization. Kanake and Kemboi (2020) used the theory to carry out a study investigating the relationship between employee empowerment and innovative work behaviour. The study revealed that the kind of exchange between the leaders and staff is positively moderated by the nature of the relationship between them.

The current study used LMX Theory to establish the kind of relationship that transformational leaders form with their staff in such a way that the staff trust and respect them. Once the leaders have won such trust, they can then use the four dimensions of transformational leadership to influence the staff to achieve higher performance than they would ordinarily achieve.

2.1.3. Social Exchange Theory

The Social Exchange Theory was proposed by Blau in 1964, Homans in 1958, Thibaut and Kelley in 1959, Hollander in 1958 and Jacobs in 1970. The theory avers that followers are obliged to give back according to what they get from their leaders (Pattnaik & Sahoo, 2021). If followers perceive their leaders as supportive and caring, they become more committed to the leadership and organization (Bouraoui et al., 2019). In this manner, the

follower is seen to exchange trust for admirable behaviour by the leader. Followers who are psychologically empowered by their leaders exhibit job satisfaction and commitment (Minai et al., 2020).

The Social Exchange Theory has been criticized on the basis of self-interest, being seen as self-centred than altruistic (Muldoon et al., 2018). Leaders are perceived to be influencing followers for their selfish gain rather than mutual benefits, hence creating dependence of followers on them.

Saira et al. (2021) conducted their study in Pakistan anchoring it on this theory to explore the relationship between transformational leadership and employee outcomes, with psychological empowerment as the mediator. The study established that there was a positive and significant influence of transformational leadership on psychological empowerment. In Nigeria, Liman et al. (2020) underpinned their study on this theory by investigating the moderating effect of job satisfaction on the relationship between multi-level marketing and distributors retention. A study by Nkatha (2017) in microfinance institutions used this theory to investigate the antecedents of employee engagement, noting that employees carry out a cost-benefit analysis to decide whether to remain in a relationship or to leave.

The current study used this theory to support the staff retention variable by explaining how the staff decides to remain in their organization because they perceive certain benefits and psychological empowerment from their leaders. The theory was preferred for explaining how the idealized influence attributed dimension makes the leader be perceived as a role model to the employees.

2.1.4. Resource-Based View (RBV) Theory

Resource-based view (RBV) theory states that the survival of a company is dependent on its tangible and intangible resources (Lu et al., 2021). It has been mostly used in establishing how organizations create and sustain competitive advantage (Gaya & Struwig, 2016). It was authored by Barney (1991) who posited that organizations ought to have value-adding resources. The resources should be imperfectly imitable, so that other organizations do not duplicate them. The theory was enriched by Penrose in 1959 who averred that a firm is an administrative organ that comprises productive resources that have potential services, and Wernerfelt in 1984 and Rumelt in 1984 who proposed the strategy of utilizing the existing resources and developing new ones (Armstrong, 2014). The staff in the MFIs being considered in this study are the resources that should be retained.

The theory has been criticized for lack of clarity on what qualifies to be categorized as resource based view and what does not qualify (Gaya & Struwig, 2016), thus being ambiguous. As observed by Lu et al. (2021), the theory is silent on which tangible and intangible resources should be considered more important for the success of an institution, although most studies have focused on the importance of intangible resources in the modern world of globalization and employees' mobility across organizations (Butt et al., 2020).

Tayal et al. (2021) carried out a study on the effect of transformational leadership on the effectiveness of banks in India, underpinning the study on the RBV theory. The study noted that organizations should combine resources and skills such as leadership to be uniquely competent. Gitahi and K'Obonyo (2018) explored the relationship between organizational resources and performance of firms in Nairobi Stock Exchange, anchoring the study on The Resource-Based View Theory. The study considered both tangible and intangible resources such as financial resources, employees' skills, etcetera. The study concluded that heterogeneity and immobility of resources in organizations contributes to existence of their competitive advantage.

In this study, The Resource-Based View (RBV) Theory was used to explore the importance of staff retention being the dependent variable in the current study. This is in line with the observation by Luna-Arocas et al. (2020) that staff who are committed and talented are a resource for an organization's sustainable competitive advantage. The well trained and experienced staff are regarded in the current study as resources that are rare, inimitable, value-adding, and difficult to substitutable.

2.2. Conceptual and Empirical Review

2.2.1. Transformational Leadership and Staff Retention

Staff do not quit organizations, they quit their leaders (Ronald et al., 2016). This assertion is emphasized by Parveen and Adeinat (2019) who argue that staff may leave due to excessive pressure resulting from unachievable targets set for them by their leaders. However, reviewed literature has showed that there is strong correlation between transformational leadership and staff retention, although there is scarcity of studies investigating the effect of the individual dimensions of transformational leadership on staff retention (Nuo & Hee, 2020). This informs the need to investigate the effect of the four dimensions of transformational leadership namely idealized influence, inspirational motivation, intellectual stimulation and individualized consideration on staff retention.

Judeh and Abou-moghli (2019) investigated the effect of transformational leadership on employees' intent to stay, mediated by self-efficacy in the textile industry context. The study found a positive significant effect of transformational leadership on both the employees' intention to stay and self-efficacy. Self-efficacy was found to partially and significantly mediate this relationship. The study by Almas et al. (2020) on the relationship between transformational leadership and retention of volunteering employees in non-profit organizations in Spain yielded similar results to the study by Judeh and Abou-moghli (2019), revealing a positive significant relationship between the two variables. Satisfaction was found to partially mediate this relationship through organizational commitment and role loyalty. This study exhibited a methodological gap where the response rate was a low of 28%, which was remedied by use of a high response rate of 70.5% in the current study.

In Uganda, Mugizi et al. (2019) explored the effect of transformational leadership on teachers' retention in Bushenyi-Ishaka, revealing a positive significant relationship between the two variables. The current study determined the percentage change in the dependent variable per unit change in the independent variable which lacked in this study. Within the microfinance context, the study by Muriuki and Ombaba (2018) found a positive and significant relationship between transformational leadership and staff performance. The current study extended the investigation to staff retention.

2.2.2. Idealized Influence and Staff Retention

The impact of the respective dimensions of transformational leadership on staff retention has not been sufficiently investigated (Edirisooriya, 2020). Afshari (2021) investigated the effect of idealized influence on organizational commitment, which in the current study was conceptualized as a measure of staff retention. The study was conducted in two different contexts: Iranian context where both idealized influence attributed and idealized influence behavior had significant influence on organizational commitment and Australian context where only idealized influence behavior had significant effect on organizational commitment. This implies that the effect of idealized influence dimension of transformational leadership is context-based. The current study encompassed all the four dimensions of transformational leadership and focused on microfinance context, thus addressing both the conceptual and contextual gaps in this study.

Njiraini et al. (2018) explored the effect of idealized influence and inspirational motivation on job satisfaction in the context of commercial banks in Kenya. The findings revealed a positive and significant effect of both idealized influence and inspirational motivation on employees' job satisfaction. The current study included all the four dimensions of transformational leadership and based the investigation within the microfinance context. A similar study was conducted by Otieno et al. (2019) to explore the effect of idealized influence on staff engagement in Kenyan parastatals. The study revealed a statistically significant effect of idealized influence on staff engagement. The current study considered staff engagement as an indicator of staff retention.

2.2.3. Inspirational Motivation and Staff Retention

An examination of studies investigating the effect of inspirational motivation on organizational outcomes shows that microfinance context has been left out by researchers. For instance, Hasija et al. (2019) explored the relationship between inspirational motivation and staff engagement in the educational context in India, yielding a positive and significant correlation between the two variables. The study was limited only to one measure of staff retention namely staff engagement. The current study extended the scope to include other staff retention measures namely perceived organizational justice, staff satisfaction, organizational commitment and intention to stay. In Uganda, Komakech et al. (2021) investigated the influence of inspirational motivation on performance by public health workers. The findings revealed a positive and significant effect of inspirational motivation on performance, and therefore confirmed the results of the study by Chebon et al. (2019) which investigated the effect of inspirational motivation and idealized influence on employees' performance in a hospital set up.

2.2.4. Intellectual Stimulation and Staff Retention

Hassi (2019) did not find significant relationship between intellectual stimulation and employee commitment, particularly calculative commitment. On the other hand, Thuan, (2020) found a significant relationship between intellectual stimulation and follower creativity. Komakech et al. (2021b) based their study on the health sector and established that there was a significant and positive relationship between intellectual stimulation and employee performance, although Kebede (2019) found the relationship to be moderately positive and significant. Since these studies were confined to only one dimension of transformational leadership, the current study investigated the effect of all the four dimensions on staff retention.

2.2.5. Individualized Consideration and Staff Retention

From a global perspective, Ding and Li (2020) conducted a study whose results showed that individualized consideration has a positive correlation with employee strengths use. In Tanzania, Golyama et al. (2018) focused on the effect of individualized consideration on public sector performance and found it to be positive and significant. The study was replicated in Kenya within SMEs by Ogola et al. (2017) and the results revealed a strong correlation between individualized consideration and employee performance. The current study extended the scope of these studies to include all the four dimensions of transformational leadership and anchored it in the microfinance context, considering staff retention as the desired organizational outcome.

2.3. *Conceptual Framework and Hypothesis Formulation*

A conceptual framework presents the key concepts being investigated and their proposed interrelationships so as to provide the researcher with a clear roadmap to follow during the investigation (Miles et al., 2014). In the current study, transformational leadership was the independent variable while staff retention was the dependent variable. Deriving from the reviewed literature, the indicators for transformational leadership were idealized influence (II), inspirational motivation (IM), intellectual stimulation (IS), and individualized consideration (IC). Similarly, the key emerging measures of staff retention for this study were intention to stay, staff satisfaction, perceived organizational justice, organizational commitment, and staff engagement. The study was based on the microfinance context. Figure 2.1 shows the directionality of the relationships among the variables.

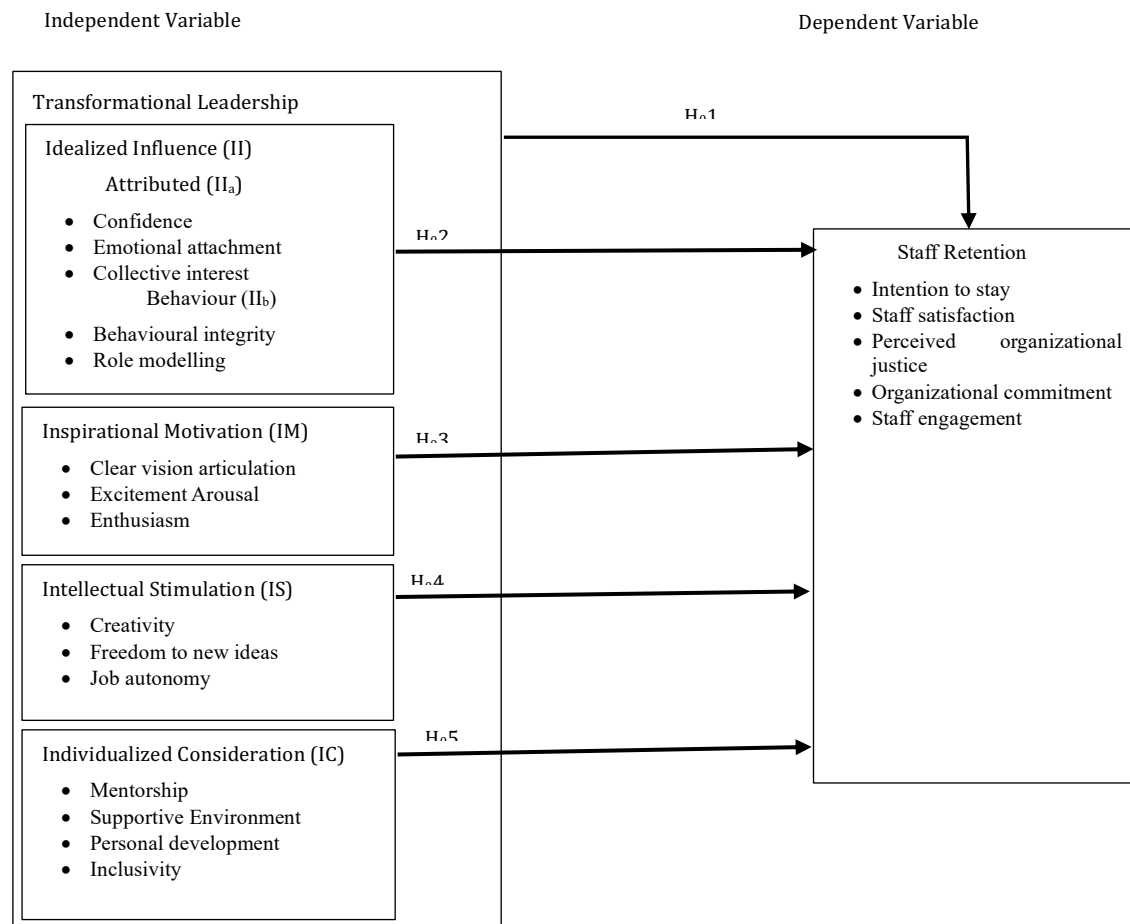


Figure 2.1: Conceptual Framework

The null hypotheses that were used to test the relationship between the study's variables were:

Hypothesis one: Transformational leadership has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

Hypothesis two: Idealized influence has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

Hypothesis three: Inspirational motivation has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

Hypothesis four: Intellectual stimulation has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

Hypothesis five: Individualized consideration has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

3. Research Methodology

3.1. Research Philosophy

In the current study, objectivism was opted for since the phenomenon being observed was considered to be external to the researcher. Objectivism is defined as the position adopted by the research in order to explain why an occurrence takes place as it does (Saunders et al., 2007), as is the situation in the current study. In line with Bryman's (2012) opinion of objectivist approach of viewing entities as separate from social actors, the MFIs were viewed as independent social entities from the respondents. The study used quantitative research and deductive

approach, and thus was anchored on the positivism paradigm. Further, positivist approach was preferred so as to generate results that were generalizable to the entire population.

3.2. Research Design

According to Creswell (2012), an explanatory research design is recommended if a study seeks establish the effect of an independent variable on a dependent variable. The current study, therefore, adopted a descriptive and explanatory research design to describe the characteristics of the population being investigated and to explore the effect of transformational leadership on staff retention in microfinance institutions in Nairobi City County, Kenya respectively.

3.3. Target Population

Population refers to all individuals that have similar characteristics (Mugenda & Mugenda, 2019). It is the sum total of all people that the researcher wishes to investigate and make inferences from (Sekaran & Bougie, 2016). There were 12 accessible MFIs licenced by the Central Bank of Kenya within Nairobi City County at the time of this study, which formed the unit of analysis for the study. The unit of observation comprised employees at the senior management level, middle-management level, and the lower level management staff in the head offices of the 12 MFIs. The Census method was used for sampling as recommended by Bryman (2012) for a small population, a similar method used in the study by Sammut et al. (2021) in the investigation of the relationship between distributed leadership and staff satisfaction. Table 3.1 shows the target population

Table 3.1: Target Population

Strata	Total number of staff	Percentage
Senior management staff	26	8.72%
Middle management staff	48	16.11%
Lower-level management staff	224	75.17%
Total	298	100%

Source: Field data

A structured questionnaire was used to collect primary data since it is suitable for a descriptive study in order to obtain objective data (Saunders et al., 2007). The instrument was pretested and piloted before the actual data collection to improve its reliability and validity.

3.4. Data Analysis

Data analysis refers to the analysis of numerical data to enable description of a phenomenon (Teddlie & Tashkkori, 2009), including testing of the hypothesis for the purpose of drawing statistical inferences from the data (Kothari, 2004). In this study, descriptive and inferential statistics were conducted for the data collected. Descriptive statistics are relevant for ensuring replication of a study and interpretation of other statistical data analysis (Whittemore & Melkus, 2008). Measures of central tendency, standard deviation and frequency of distribution were used in this study to interrogate how the scores were distributed. Inferential statistics were used to draw inferences regarding the larger population (Ruscio, 2017).

The current study utilized correlation analysis and linear regression analysis to explore the relationship between the variables and to test the study's hypothesis respectively. F-test and p-values were computed to test the statistical significance of the relationships as guided by Saunders et al. (2007). Regression analysis was used to predict and explain the variation in staff retention due to a unit change in transformational leadership.

Diagnostic tests were conducted to ascertain that regression analysis was not violated. The results were summarized in Table 3.2

Table 3.2: Summary of Diagnostic Tests

Diagnostic test	Test	Observation	Conclusion
Normality test	Skewness Kurtosis	-.871 and 1.118 respectively. (Values within ± 3)	Normal distribution
Heteroscedasticity	Levene test	$p > 0.05$	No heteroscedasticity
Multicollinearity	Variance Inflation Factor (VIF)	VIF < 10	No multicollinearity
Linearity test	Scatter Plots	Normal PP line	Presence of linearity

4. Research Findings

4.1. Response Rate

The response rate obtained from the distributed questionnaires is summarized in Table 4.1

Table 4.1: Response Rate

	Frequency	Percentage	
Response	210	70.5%	
Non response	88	29.5%	
Total	298	100.0	
Strata	Targeted Response	Actual Response	Percentage
Senior management staff	26	9	34.6%
Middle management staff	48	17	35.4%
Lower-level management staff	224	184	82.1%
Total	298	210	70.5%

The response rate was 70.5%, which was considered sufficient for analysis in accordance with the recommendation by Babbie (2010) that response rate should be 70% or more for a reliable analysis and presentation of the results.

4.2. Respondents Characteristics

The study considered the following characteristics of respondents as important attributes that would influence their responses: Gender, age, the highest level of academic qualification, their rank as per the position held in the institution, and the number of years the respondent had worked in their current institution. The results were summarized in Table 4.2

Table 4.2: Respondents Characteristics

Gender of the Respondent

	Frequency	Percent
Valid		
Male	94	44.8
Female	116	55.2
Total	210	100.0

Age of the Respondent

	Frequency	Percent
Valid		
Below 24	28	13.3
25-34	99	47.1
35-44	64	30.5
45-54	19	9
55 and above	0	0

Total		210	100.0
		Frequency	Percent
Highest Academic Qualification			
		Frequency	Percent
Valid	Other	3	1.4
	Diploma certificate	39	18.6
	Bachelor's Degree	145	69.0
	Master's degree	22	10.5
	Doctoral Degree	1	.5
	Total	210	100.0
Position held in the Institution			
		Frequency	Percent
Valid	Lower-level management staff	142	67.6
	Head of Department	42	20.0
	Branch Manager	17	8.1
	General Manager	7	3.3
	Chief Executive Officer	2	1.0
	Total	210	100.0
Number of Years Worked in the Institution			
		Frequency	Percent
Valid	Less than 1 year	49	23.3
	1 - 5 years	100	47.6
	6 - 10 years	49	23.3
	Over 10 years	12	5.7
	Total	210	100.0

From Table 4.2, there were more females (55.2 %) than males (44.8%), indicating high inclusion of females in MFIs leadership. The analysis also show that majority of the staff are middle aged (between 24 and 44 years). In terms of academic qualification, over 80% of the respondents had a Bachelor's degree and above, implying that they comprehended the phenomenon investigated in their responses. Most of the respondents (67.6%) were in the lower level management staff, thus their views regarding the institutions' leadership were well represented without self-reported bias of the data. 76.6% of the respondents had worked in their institutions for over 1 year, hence the results were seen as credible. On the other hand, only 5.7% of the respondents had worked for over 10years, which can be attributed to the emergent of many new MFIs in the last 10years thus high workforce mobility.

4.3. Descriptive Statistics

The characteristics of the study's variables were summarized in Table 4.3, comprising of the aggregate mean and standard deviation for each variable.

Table 4.3: Descriptive Characteristics

Variable	Reliability (Cronbach Alpha)	Mean	Std. Dev
Idealized Influence	.930	4.32	.695
Inspirational Motivation	.884	4.30	.762
Intellectual Stimulation	.904	4.19	.877
Individualized Consideration	.864	3.99	.979
Staff Retention	.926	3.68	.970

All the variables had a Cronbach Alpha above 0.7 which is recommended by Hair et al. (2019), with idealized influence 0.930, inspirational motivation 0.884, intellectual stimulation 0.904, individualized consideration 0.864 and staff retention 0.926. This confirms the instrument's reliability for data collection.

The aggregate mean of 4.32 for idealized influence and standard deviation of 0.695 showed that respondents were in consensus that idealized influence was deployed in the institutions studied. This confirms findings from the studies conducted by Edirisooriya (2020) and Otieno et al. (2019a). Similarly, the high mean of 4.30 and low standard deviation of 0.762 for inspirational motivation implies that respondents were in agreement that inspirational motivation was practiced in the microfinance institutions. This is in line with the findings of the study carried out by Komakech et al. (2021a). Intellectual stimulation was also emphasized in the microfinance institutions as revealed by the mean score of 4.19, with convergence of views by the respondents as indicated by the low standard deviation. The results are consistent with the findings by Thuan (2020). Although individualized consideration was also emphasized (mean = 3.99) in microfinance institutions, there was a relatively higher dispersion of responses as indicated by the standard deviation of 0.979. Finally, the overall mean score for staff retention was 3.68 with a standard deviation of 0.970, which shows that there was agreement among respondents on retention of employees in the MFIs investigated. Therefore, there is average retention of employees among MFIs in Nairobi City County. The standard deviation of 0.970 reflects relative agreement among respondents on the level of retention these institutions.

4.4. Test of Hypotheses

The study's hypotheses were tested using both simple linear regression analysis and multiple linear regression and results interpreted at 0.05 significance level to decide on acceptance or rejection of the hypotheses.

Multiple regression analysis was done to examine the effect of transformational leadership on staff retention. Table 4.4 presents the regression model summary.

Table 4.4: Model summary linking Transformational Leadership and Staff Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845 ^a	.714	.709	.26938

The results in Table 4.4 shows that there is a strong and positive correlation between transformational leadership and staff retention in the MFIs in Nairobi City County, Kenya, as represented by the coefficient of 0.845. The adjusted R Square (R^2) was 0.709 suggesting that transformational leadership predicted 70.9% of the variation in staff retention. The other 19.1% of the variation was explained by other factors than transformational leadership. The significance of the regression model was determined from the ANOVA analysis in Table 4.5.

Table 4.5: ANOVA Linking Transformational Leadership and Staff Retention

	Sum of Squares	df	Mean Square	F	Sig.
Regression	37.75	4	9.4375	128.176	0.000 ^b
Residual	15.094	205	0.074		
Total	52.844	209			

The P-value was 0.000, lower than the significance level of 0.05 and therefore the model was found to be fit for predicting the dependent variable.

The significance of beta coefficients for the model was conducted and represented in Table 4.6.

Table 4.6: Table of Regression Coefficients^a 1

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	1.518	.248		6.128	.000
Idealized Influence	.149	.071	.168	2.082	.039
Inspirational Motivation	.034	.076	.041	.444	.657
Intellectual Stimulation	.121	.054	.173	2.251	.025
Individualized Consideration	.183	.051	.278	3.564	.000

The regression model was summarized in a regression equation as shown below:

$$SR = 1.518 + 0.168II + 0.041IM + 0.173IS + 0.278IC + \varepsilon$$

The fitted regression equation shows that if all the four indicators of transformational leadership were kept constant, the value of staff retention would be 1.518. The values of standardized coefficients show that if all other factors were held constant, a unit change in idealized influence would account for 0.168 increase in staff retention, while a unit change in inspirational motivation would increase it by 0.041, a unit change in intellectual stimulation by 0.173, and individualized consideration by 0.278.

The results revealed that all the variables (idealized influence $p = 0.039 < 0.05$, intellectual stimulation $p = 0.025 < 0.05$ and individualized consideration $p = 0.000 < 0.05$) were significant at 0.05 except inspirational motivation which was not significant ($p = 0.657 > 0.05$). The study therefore rejected the null hypothesis one that transformational leadership has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya and thus concluded that the transformational leadership has a significant effect on staff retention among microfinance institutions in Nairobi City County, Kenya

Hypothesis two, hypothesis three, hypothesis four and hypothesis five were tested using simple linear regression and the results represented as follows.

Table 4.7: Model Summary Linking Idealized Influence and Staff Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.882 ^a	.778	.777	.23767

Table 4.8: Table of Regression Coefficients^{a 2}

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.081	.246		8.445	.000
Idealized Influence	.338	.057	.383	5.978	.000

Table 4.7 shows a strong and positive correlation of 0.882 between idealized influence and staff retention, while Table 4.8 reveals that a unit change in idealized influence results to a 38.3% change in staff retention. The model is significant at 0.05 ($p = 0.000 < 0.05$) and thus the null hypothesis two rejected, implying that idealized influence has a significant effect on staff retention.

Table 4.9: Model Summary Linking Inspirational Motivation and Staff Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.740 ^a	0.547	0.545	0.33921

Table 4.10: Table of Regression Coefficients^{a 3}

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	2.080	.227		9.152	.000
Inspirational Motivation	.340	.052	.411	6.495	.000

The results in Table 4.9 show a strong and positive relationship between inspirational motivation and staff retention. In contrast to the observation that inspirational motivation was not significant when regressed on staff retention jointly with idealized influence, intellectual stimulation and individualized consideration, the results in Table 4.10 denote that it was significant when regressed on staff retention alone (inspirational motivation, $p =$

0.000 < 0.05). Hypothesis three was thus rejected, implying that inspirational motivation has a significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

Table 4.11: Model Summary Relating Intellectual Stimulation on Staff Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.833 ^a	0.694	0.692	0.27885

Table 4.12: Table of Regression Coefficients^a 4

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	2.294	.186			12.360	.000
Intellectual Stimulation	.298	.044	.428		6.826	.000

From the results in Table 4.11, there is a strong positive and direct relationship between intellectual stimulation and staff retention. Table 4.12 shows that the regression model is significant at 0.05 (intellectual stimulation, $p = 0.000 < 0.05$), thus rejecting hypothesis four that intellectual stimulation has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya

Table 4.13: Model Summary Linking Individualized Consideration on Staff Retention

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.839 ^a	.705	.703	.27397

Table 4.14: Table of Regression Coefficients^a 5

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	2.306	.164			14.046	.000
Individualized Consideration	.310	.040	.469		7.667	.000

Table 4.13 indicates a strong correlation between individualized consideration and staff retention, while Table 4.14 shows that the regression model was significant. The study therefore rejected the hypothesis that individualized consideration has no significant effect on staff retention in microfinances in Nairobi City County.

5. Discussions and Implications for Theory

The first objective of the study sought to investigate the effect of transformational leadership on staff retention in microfinance institutions in Nairobi City County, Kenya. The corresponding null hypothesis was that transformational leadership has no significant effect on staff retention in microfinance institutions in Nairobi City County in Kenya. The study rejected the null hypothesis and concluded that the transformational leadership has a significant effect on staff retention among microfinance institutions in Nairobi City County in Kenya. With regard to the theoretical underpinning, the results of this study supported the tenets of transformational leadership that a transformational leader is capable of influencing the followers to perform more than they thought they would. The results were consistent with the demographic, descriptive, empirical and theoretical literature, thus could be generalised in other sectors and studies.

The study also tested the hypothesis that idealized influence has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya. Results revealed a positive but moderate correlation between idealized influence and staff retention. Idealized influence was found to have a significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya, thus rejecting the null hypothesis that idealized influence has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya. The results supported the postulation of the study that leaders are change agents that can change organizational outcomes such as staff retention. Further, the results supported Leader-Member Exchange (LMX)

theory which asserts that leadership is a situation where leaders endeavour to create high-quality exchanges with all followers as a valuable tool that transformational leaders can use to influence followers to increase their loyalty to them and to the organization. The results were congruent with other empirical studies thus confirming that they are generalizable to other contexts and studies.

Hypothesis three, which stated that inspirational motivation has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya, was rejected since the results showed that inspirational motivation had a moderately significant and positive relationship with staff retention. The results of the study supported the transformational leadership theory which postulates that inspirational motivation empowers a leader to articulate their envisioned better future clearly, instill team spirit, and to operate with optimism and enthusiasm. Since similar studies were conducted in different sectors other than microfinance institutions, the results of the current study are generalizable to other contexts.

Another objective of the study was to establish the effect of intellectual stimulation on staff retention in microfinance institutions in Nairobi City County, Kenya. The corresponding hypothesis was that intellectual stimulation has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya. The results indicated a moderate and positive correlation between the two variables, and that intellectual stimulation had a significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya. The study therefore rejected the null hypothesis. The results supported the tenets of Transformational Leadership Theory that a leader can inspire followers to achieve more than they thought they could by changing their long held beliefs and status quo. The results are also consistent with other empirical studies thus confirming their generalizability to other contexts.

The last objective of the study was to establish the effect of individualized consideration on staff retention in microfinance institutions in Nairobi City County, Kenya. The corresponding hypothesis was that individualized consideration has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya. The study found a positive correlation between the variables. Individualized consideration was found to have a significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya, thus rejecting the hypothesis. The results supported the tenets of transformational leadership theory that a leader acts as a mentor and coach, and values the individual needs of each follower as well as providing a conducive environment for followers to thrive. Since empirical studies in other contexts showed similar results that individualized consideration has a significant effect on staff retention, the results of the study can be generalized in other sectors and institutions.

6. Conclusions and Recommendations

The study concluded that transformational leadership is a significant predictor of staff retention. The four indicators of transformational leadership namely idealized influence, inspirational motivation, intellectual stimulation and individualized consideration were significant predictors of staff retention when regressed in isolation, but only idealized influence, intellectual stimulation and individualized consideration were significant predictors when regressed jointly.

The study recommends that policy makers at the Central Bank and in the microfinance institutions in Nairobi City County should align the transformational leadership practices with staff retention strategies for a sound and stable operation in these microfinance institutions.

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