



CHIEF EXECUTIVE OFFICER LEADERSHIP STYLE AND ORGANIZATIONAL PERFORMANCE OF STATE CORPORATIONS IN KENYA

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Abstract

The CEO is one important organizational resource that sets the path for the firm's strategic direction. The general objective of the study was to establish the effects of chief executive officers leadership style and performance of state corporations in Kenya. The study was carried out in Nairobi and Mombasa where the CEO's and management staff of the 11 state corporations were based. The research study used descriptive research design and the target population constituted 477 management staff and CEOs' of the nine state corporations. However, only 153 formed the sample size which represented 30% of the total population. The CEOs', heads of departments and middle level management formed the key respondents of the research study. The study employed a structured questionnaire to collect data. A pilot test was carried out to test the reliability of the instrument. A total of 15 questionnaires were used for this purpose. Data collected was analyzed using Social Science Statistical Package (SSPS). Multiple regression analysis was used to establish the relationship between the independent and dependent variables. Reliability was also tested using Cronbachs alpha and all the variables meet the threshold for subsequent analysis. Factor analysis was also employed to test for validity where the questions that didn't meet the threshold were dropped not to be considered for subsequent analysis. Correlation analysis indicated that the independent variables had a positive and significant relationship with organizational performance of state corporations. Regression analysis was used also to test the nature of the relationship. Leadership style leading explained 70% of the variation in performance of state corporations. The study therefore concluded that leadership style had a prominent effect on the performance of state corporations in Kenya.

Key Words: Leadership Style, Chief Executive Officer, Transformational Leadership, Performance of State Corporations, Kenya

1. Introduction

Effective organizations do not passively wait for the future; they create it by investing their time, thoughts, and planning in order to ensure the continuity of their leadership talent. This process is otherwise known as succession planning which ensures the continued effective performance of the organization by establishing a process to develop and replace key staff over time, such as Chief Executive Officer, (Wegge, J and Haslan, S(2005).

Identifying and developing the best people for key leadership roles is basic to future organizational success. To ensure that success is indeed continued, organizational leaders; need the excellent performance in their organization preserved if not enhanced, need important leadership positions identified, should strengthen individual advancement and should have the right leaders prepared for the right positions at the needed time, (Wallner, 1999).

Unfortunately, planning for succession is often overlooked or occurs when it is too late after key people have left the organization and there are no internal candidates to fill the leadership positions. When organizations execute succession planning correctly, it will have fully prepared frontline and management staff to step into positions left vacant because of retirement and general attrition, (Wagner, 2007).

The study emphasized the relationship between CEO's leadership styles, and organizational performance consistent with the widely accepted assumption that the CEO is the most important individual that influences the strategic direction of the organization and determines its capabilities, (Ulrich, et al, 2009).

1.1 Statement of the Problem

Besides the fact that none of the past studies on effects of CEO leadership styles and performance of state corporations have been undertaken in Kenya, past studies did not consider the CEO as a single most important stand-alone resource to the state corporation with peculiar leadership style, unique core competencies which as an individual he or she brings to the state corporation.

Past studies therefore, did not adequately account for the effects of CEO leadership style and their combined effect on the performance of state corporations. As a result of this omission, the actual, the effects of CEO leadership style may have significantly been understated by past studies. The studies did not take into consideration CEO's peculiar leadership style. It is a

problem to Boards of Directors and recruiters of state corporations because if they recognize academic credentials only and ignore CEO's leadership style when recruiting CEOs, they not perform effectively and efficiently. Without the appreciation of leadership styles by the board, the state corporations would not be able to meet corporate objectives of profit growth, sales growth, and high earnings per share. It is therefore, the purpose of this study to bridge the gap between the current phenomenons and move the State Corporations in Kenya to the expected state.

1.2 Objectives of the study

The study focused on different leadership styles that are utilized by chief executive officers which include; transactional and charismatic, dispersed, transformational leadership styles and their effects on organizational performance of state corporations in Kenya.

2. Literature Review

Provision of leadership is the primary role of the CEO as the flag-bearer of an organization. The strength of a CEO's leadership is when it becomes inspirational among the employees of the organization, Raelin (2003). The capacity to inspire and influence behaviour positively enhances the effectiveness of a CEO, whose turnover and succession will affect organizational performance.

2.1 Transactional and Charismatic Leadership

Leadership on the part of chief executive officers (CEOs) has been heralded as an important ingredient for the revitalization of organizations and as critically important to the top management of large organizations, Tsui, et al (2006). Unfortunately, little empirical evidence exists to support such claims as to the performance-stimulating potential of various forms of leadership at the level of CEO. The purpose of this study in part is to examine systematically the effects of CEO transactional and charismatic leadership on firm performance, Yammarino et al (2005)

Key leadership characteristics may include transactional leadership and charisma, Safferstone (2005), Transactional leadership. Rodger, et al (2003) proposed that one possible form of strategic leadership is transactional in nature. The transactional leader is one who operates within the existing system or culture by attempting to satisfy the current needs of followers by focusing on exchanges and contingent reward behaviour, and paying close attention to deviations, mistakes, or irregularities, and taking action to make corrections Bass, (1985) and Burns, (1978).

Transactional leadership is similar conceptually to the cultural maintenance form of leadership which acts to strengthen existing structures, strategies, and culture in an organization. In line with upper echelons theory, we propose that transactional or maintenance leadership represents an active form of strategic leadership that may be an important ingredient of organizational effectiveness.

In addition, performance has often been assessed by rating or other subjective procedures, rather than objective measures. Transactional leadership on the part of CEOs will be positively associated with organizational performance.

2.2 Charismatic Leadership

Charisma represents another potentially key component of strategic leadership, Podolny, (2005). Specifically, charisma is defined as a *relationship* between an individual leader and one or more followers based on leader behaviours combined with favorable attributions on the part of followers. Key behaviours on the part of the leader include articulating a vision and sense of mission, showing determination, and communicating high performance expectations. Favorable attributions effects on the part of followers include the generation of confidence in the leader, making followers feel good in his/her presence, and strong admiration or respect

Moreover, the charismatic leader may show persistence and enthusiasm in pursuing goals over the long haul, as well as being demanding of others through the communication of high performance expectations. Nevertheless, these findings cannot be readily generalized to the performance of CEOs of state corporations for reasons similar to those cited above for transactional leadership, especially with regard to the fact that most prior research has focused on lower levels of management. However, theoretical support for the importance of charismatic leadership at the top executive level can be found in the literature, (Perren and Burgoyne, 2001). Katz and Kahn (1978) argued that charisma is particularly important at the top executive level as a means of mobilizing an organization to meet the demands of its environment. In sum, despite the theoretical work available, the literature would benefit from systematic empirical study involving CEOs.

Both transactional leadership and charisma are potentially important aspects of leadership at the CEO level. An additional issue involves the connection between these two forms of leadership and how they may operate in tandem with regard to organizational performance. Bass (1985) viewed transactional and charismatic leadership as being somewhat complementary in nature in

that both could be displayed by the same individual leader. The trust, respect, vision, and high performance expectations engendered by the charismatic relationship motivate followers to put forth effort beyond expectations, and to accept organizational change. The result should be heightened commitment to achieve organizational performance beyond expectations.

2.3 Dispersed Leadership

The importance of social relations in the leadership contract, the need for a leader to be accepted by their followers and a realization that no one individual is the ideal leader in all circumstances have given rise to a new school of leadership thought. Referred to as ‘informal’, ‘emergent’ or ‘dispersed’ leadership, this approach argues a less formalized model of leadership where the leaders’ role is dissociated from the organizational hierarchy.

Heifetz (1994) distinguishes between the exercise of “leadership” and the exercise of “authority” thus dissociating leadership from formal organizational power roles whilst Raelin (2003) talks of developing “leaderful” organizations through concurrent, collective and compassionate leadership. The key to this is a distinction between the notions of “leader” and “leadership”. “Leadership” is regarded as a process of sense-making and direction-giving within a group and the “leader” can only be identified on the basis of his/her relationship with others in the social group who are behaving as followers.

The origins of such an approach have their foundations more in the fields of sociology and politics than the more traditional management literature and draw on concepts such as organizational culture and climate to highlight the contextual nature of leadership. It is a more collective concept, and would argue for a move from an analysis and development of individual leader qualities to an identification of what constitutes an effective leadership process within an organization.

2.4 Transformational Leadership

Much of the transformational leadership literature stresses the cognitive and affective relationship between leader and organizational members and stresses the differences between leadership and traditional management or administration of impersonal systems. Therefore, it makes sense to suppose that transformational leadership would have its primary effects outside of the formal administrative system. Transformational leadership is one of the key driving forces for improving firm performance. Leaders, as the key decision-makers, determine the acquisition,

development, and deployment of organizational resources, the conversion of these resources into valuable products and services, and the delivery of value to organizational stakeholders.

Further, transformational leaders create a strategic vision, communicate that vision through acting consistently, and build commitment towards the vision, Mitchel and Silver, (1990).

This view suggests that transformational leadership will result in high levels of cohesion, commitment, trust, motivation, and performance in these new organizational environments. Previous empirical research has indicated that transformational leadership has a positive effect on individual performance and organizational outcomes, Locke and Latham (2002). Numerous studies have reported positive relationships between transformational leadership and outcomes at the individual level and firm levels, Avolio, (1999) Most recently, many empirical studies have reported that transformational leadership has a positive impact on follower performance and firm capabilities, Tichy and Devanna (1986)

3. Materials and Methods

3.1 Research design

The study adopted Descriptive Research Design to support and meet the research objectives. The descriptive design was flexible and expansive enough to adapt to various field challenges that could arise during administration of questionnaire and data interpretation. Descriptive research design provides an accurate account of characteristics of a particular event or group on real life situation, Mugenda, (2008).

3.2 Population

For purposes of this study the population was drawn from eleven state corporations comprising of CEOs, heads of departments, middle level managers and lower level management staff totaling to 477. State corporations constitute a major source for ex-chequer resources and therefore their performance in the economy is very important, Cabinet Office, (2011). Target population is that population which a researcher wants to generalize the results of a study. In defining the accessible population, one should not be influenced by convenience. The study considered the following organizations as its target population

Table 1 Categorization of the Target Population

Firms	CEO	Head of Departments	of Middle level managers	Lower Level Mgt staff	Total respondents
Very good Performers					
KAA	1	4	8	15	28
KP	1	6	12	35	54
KPLC	1	10	26	74	111
KenGen	1	6	10	50	67
KRA	1	4	8	15	28
Sub Total					288
Good Performers					
KPA	1	12	16	27	56
NOCK	1	4	8	15	28
NCPB	1	4	9	16	30
Sub Total					114
Poor Performers					
EAPC	1	6	12	20	39
AFC	1	2	4	6	13
Chemil Sugar	1	4	8	10	23
Sub Total					75
Grand Total					477

Source: Cabinet Office (2011) Report on the Evaluation of the Performance of Public Agencies.

3.3 Sampling and Sampling Procedure

In this research, the researcher stratified the state corporations into three strata; very good performing, good performing and poor performing. Purposive sampling proportional to size was used to select corporations within each strata. The research identified the sample respondents from the various departments who included human resources, marketing, finance, operations and public relations but only a sample of 153 was chosen to participate. This formed 30% of the population. The respondents were CEO's, Heads of Department, Middle level and lower level management staff from the firms were chosen using simple random sampling to give them equal chances of being selected.

3.4 Instrument and Tools of Data Collection

The study used a structured questionnaire administered to the sample population. The structured questionnaire was guided by the objectives of the study. The structured questionnaires were recommended because they help the respondents to respond more easily and help the researcher to accumulate and summarize responses more efficiently, Sekaran (2003).

3.5 Data Collection Procedure

Using the questionnaire, the study targeted the sample size of population of CEO's, Heads of department, middle and lower level management staff of the above organizations. The CEO's, middle level managers and lower level management staff were more likely to be most knowledgeable with respect to the overall situation of their firms.

3.6 Pilot Test

A pilot test was conducted using questionnaires administered to 15 individuals in the above firms. This constituted 10% of the 153 staff. The individuals were selected using simple random sampling. The research also used Cronbachs alpha to test for reliability of the data, where by all the independent variables meet the threshold of 0.7 and above as per (Nunnaly, 1978).

Factor analysis was also used as a reduction method in order to reduce the data to manageable and meaningful size in order to be left with the data that addresses the key phenomenon. The result of factor analysis was to reduce the items to only those that meet the threshold of 0.5 as indicated by (Child, 1990).

3.7 Data Processing and Analysis

The questionnaire was screened to remove those that are incomplete or poorly filled and countercheck to ensure that they are all correctly filled. The qualitative data was then converted into quantifiable forms by coding all relevant data followed by systematic assembly. Statistical Package for Social Science (SPSS) was used for analyzing the data to generate tables, graphs and statistical parameters.

Descriptive of both independent and dependent variables were established, test for normality of the dependent variable was established so that the researcher can do subsequent analysis. Factor analysis was done to reduce the data and be left with the only items that meet certain threshold. Reliability analysis was conducted through the use of Cronbachs alpha. Correlation analysis was used to test the nature of the relationship between the variables.

3.8 Measurement of Dependent Variable

For the purpose of conducting the analysis in this study sub variables under organizational performance namely profit growth, sales growth and growth in earnings per share were identified. These are the items to be measured for the dependent variable. Normality tests were done so that the researcher could continue with further analysis.

4. Results and Discussions

4.1 Response Rate

A total of 142 questionnaires were issued to respondents comprising Chief Executive Officers, heads of departments and middle level management staff. Completed questionnaires received were 115, which represented 81% response rate. The remaining 27 questionnaires were discarded because of incomplete answers or partially filled defective responses as they were not useful for statistical purposes. The response rate was considered excellent for further analysis because it was over 70% which is recommended as excellent and therefore it was adequate for statistical analysis. According to Mugenda (2008), 70% response rate is considered excellent, therefore can be considered for subsequent analysis.

4.2 Organizational Performance

Factor analysis was conducted in order to reduce the data to a meaningful and manageable set of factors (Sekaran, 2008). Out of 12 items for organizational performance variable only 8 items were retained for subsequent further analysis since these were the only items that met the threshold of 0.5 as indicated on the Table 2.

Table 2: Component matrix of organizational performance

	Component
	1
Your organization has performed well in the following performance indicators since the arrival of the current CEO (Profit growth)	0.839
How did your previous CEO's departure affect the following performance indicators in your organization (Sales growth)	0.779
How did your previous CEO's departure affect the following performance indicators in your organization (Profit growth)	0.772
Your organization has performed well in the following performance indicators since the arrival of the current CEO(Sales growth)	0.758
Your organization has performed well in the following performance indicators since the arrival of the current CEO (Earnings per share)	0.736
How did your previous CEO's departure affect the following performance indicators in your organization (Earnings per share)	0.736
How is the performance of your state corporation compared with other state corporations in terms of the following performance indicators(Sales growth)	0.665
How is the performance of your state corporation compared with other state corporations in terms of the following performance indicators(Profit growth)	0.621

Extraction Method: Principal Component Analysis.

Kolmogrov Smirnov test was used to test for the normality of organizational performance. The results indicate that the dependent variable (organizational performance) has normally distributed as depicted on Figure 1 with a mean of 23.901 and standard deviation = 5.254.

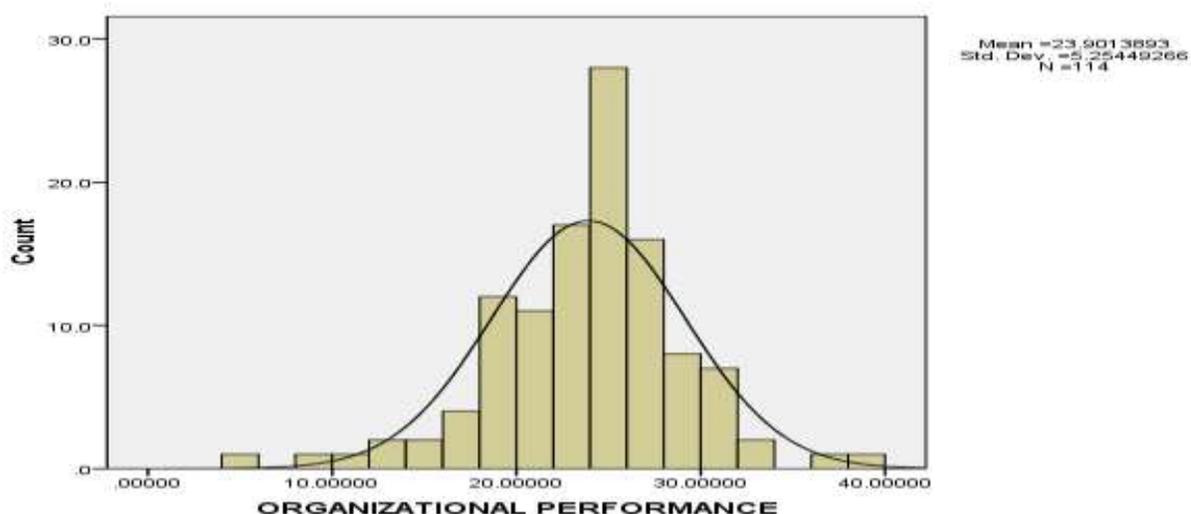


Figure 1: Histogram and Normal curve

4.3 Factor Analysis for Leadership Style

Factor analysis was carried out in order to come up with the meaningful, interpretable and manageable set of factors. Principal component analysis was done to transform the variables into a set of composite variables that are not correlated to each other. Out of 35 items analyzed, only 18 items had the right variable loadings, confirming that leadership style was measured correctly. The 18 items meet the threshold of 0.5. The resultant items after conducting factor analysis are shown

Table 3 Component Matrix of Leadership Style

	Component 1
Transformational leadership is positively associated with leader effectiveness	0.744
Transformational leadership has consistency shown advantageous effects on a range of individual and organizational outcomes.	0.674
Transformational leaders appear to be more behavioural and less emotional when dealing with stress and conflict. They demonstrate internal locus of control, self-confidence and self-acceptance	0.663
Transformational leadership is said to be positively associated with bottom line organizational performance.	0.636
Succession planning can also help organizations manage change in a more holistic way	0.623
A positive relationship has been found between CEO's transformational leadership and staff motivation.	0.612
A CEO's leadership style, his personal attributes that include his emotional and social intelligence contributes not only to staff loyalty but also organizational effectiveness and productivity.	0.596
Individualized consideration; (i.e. followers' needs are addressed both individually and equitably).	0.579
Transformational leaders must possess multiple types of intelligence and that social and emotional intelligence are critical because these are important to the leader's ability to inspire employees and build relationships	0.577
Inspirational motivation:(i.e. followers are motivated by attainment of a common goal)	0.555
Intellectual stimulation (i.e. followers are encouraged to break away from old ways of thinking and are encouraged to question their values, beliefs and expectations).	0.551
These attributes are rare and a firm loses them when they leave the organization	0.545
Succession planning helps an organization to prepare for an	0.540

unexpected event. It is often difficult to plan for the unimaginable	
A leader is a motivator, a strategic planner and resource mobilizer. He wins staff loyalty and is a motivator for them to aspire to achieve their best. His departure is bound to disengage the organization and affect its competitiveness	0.533
A charismatic CEO's shows determination when accomplishing goals, makes people feel good to be around him or her and communicates high performance expressions	0.521
Charismatic leadership account for additional, unique effects in organizational performance beyond the effects of transactional leadership	0.516
It is said that subordinates' 'organizational commitment is positively related (correlated) with the leadership behaviours of their CEOs.	0.512
There are likely leadership consequences that result from a CEO's departure	0.501

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

4.4 Reliability

Table 4: Reliability analysis

Variable	Number of items	Cronbachs alpha
Leadership style	18	0.890

The reliability results show that out of the eighteen (18) items that were considered for this variable, they meet the threshold and had a Cronbachs alpha of 0.890.

4.5 Correlation Analysis

Correlation analysis was done to see the nature, direction and significance of the bivariate relationships of the variables used in the study. The results also indicated that there was a positive correlation between leadership style and organizational performance. This is shown on Table 5 Pearson correlation matrix indicated that leadership style had a coefficient of 0.279 and it was significant at $p = 0.003$. The study therefore concludes that leadership style meets the threshold and has a positive significant relationship with organizational performance. The correlations were tested against $p = 0.05$.

Table 5: Correlations matrix between leadership style and organizational performance

		Organizational performance	Leadership style
Organizational performance	Pearson Correlation	1	0.279**
	Sig. (2-tailed)		0.003
	N	114	114
Leadership style	Pearson Correlation	0.279**	1
	Sig. (2-tailed)	0.003	
	N	114	114

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

4.6 Goodness of fit

The results indicated that the goodness of fit explained 70% variation of organizational performance of state corporations in Kenya. Therefore it can be concluded that leadership style indicated a very strong relationship between the two variables. 70% of the variance has been significantly explained by the set of predictions. Table 6 indicates these results.

Table 6: Goodness of fit of leadership style

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.279 ^a	0.078	0.070	5.06839767

a. Predictors: (Constant), leadership style

Table 7: Regression coefficients of leadership style and organizational performance

Model		Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	16.248	2.535	6.411	0.000
	Leadership style	0.098	0.032	3.074	0.003

a. Dependent Variable: organizational performance

The results on Table 7 indicate that, there is less than 0.003% chance of this not holding true. Concluding that leadership style influences performance of state corporations at $p = 0.003$. leadership style meets the threshold of $P \leq 0.05$ therefore indicating that it is one of the variable

that has a positive effect on chief executive officer turnover and succession in state corporations in Kenya.

The results of analysis of variance on Table 9 showed that the model of organizational performance with leadership style was significant ($p < 0.05$) and explained the variance in organizational performance among state corporations in Kenya.

Table 8: Analysis of Variance between Leadership Style and Organizational Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	242.766	1	242.766	9.450	0.003 ^a
	Residual	2877.129	112	25.689		
	Total	3119.895	113			

a. Predictors: (Constant), leadership style

b. Dependent Variable: organizational performance

Table 9: Overall Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64614.751	3	21538.250	658.489	0.000
	Residual	3630.655	111	32.709		
	Total	68245.406	114			

In order to test for the direction of the influence the regression coefficients were considered

$$H_0: \beta_2 = 0$$

$$H_1: \beta_2 > 0$$

was tested

This entailed comparing the scores of calculated t and the critical t. Since the calculated t = 3.074 and the critical $t_{114-1}(0.05) = 1.645$ as indicated on the Table 10.

Table 10: Coefficient of Leadership Style against Organizational Performance

Model	Coefficients			
	Beta	Std Error	t	t- critical
Leadership Style	0.098	0.032	3.078	1.645

The study therefore concluded that since the calculated t is greater than the critical, the study rejected $H_0: \beta_2 = 0$ and therefore concluded that, $\beta_2 > 0$. Therefore, leadership style positively and significantly affects organizational performance of state corporations in Kenya.

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