European Journal of

Business and Strategic Management

(EJBSM)

IPRJB
INTERNATIONAL PEER REVIEWED JOURNAL AND BOOK PUBLISHING

European Journal of Business and Strategic Management
ISSN 2518-265X (Online)
Vol.3, Issue No.8, pp 32 - 46, 2018
www.iprjb.org

INFLUENCE OF INTELLECTUAL STIMULATION ON THE PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

Purpose: The purpose of this study was to establish the influence of intellectual stimulation on the performance of commercial banks in Kenya.

Methodology: The study employed mixed research design, which included both qualitative and quantitative methods. The study target population was all tier 1 commercial banks in Kenya. According to CBK, there are seven tier 1 banks namely; Kenya Commercial Bank, Equity Bank, Cooperative Bank, Standard Chartered Bank, Barclays Bank, Diamond Trust Bank and Commercial Bank of Africa. The choice of tier 1 banks as the unit of observation was justifiable since they contribute to over 50% of all banking employees, and therefore, they form a good ground for random stratification. The study covered a target population of 24,244 employees working in the seven banks. A sample size of 384 was selected from all the seven banks using stratified random sampling. Primary data was collected using well-structured questionnaires. Multiple linear regression model was used to estimate the coefficients using statistical package for the social sciences (SPSS version 23). Descriptive and inferential analyses were used to analyze the data.

Results: The findings indicated that intellectual stimulation affects the performance of commercial banks in Kenya. This can be explained by the regression results which showed that the effect was positive and also showed the magnitude by which intellectual stimulation influenced the performance of commercial banks. The regression results showed that intellectual stimulation influenced the performance of banks by 0.596 units.

Unique contribution to theory, practice and policy: The study recommended that the banks' leadership should intellectually stimulates the senior managers through challenging their assumptions, encouraging risk taking and promoting innovation. These behaviors have shown a positive influence on the performance of the banks and thus leaders may consider using intellectual stimulation behaviors as approaches for performance improvement for the commercial banks.

Keywords: *intellectual stimulation, performance, commercial banks in Kenya*

1.0 INTRODUCTION

1.1 Background of the Study

Leadership drives organization performance (Jestaz, 2014). Deloitte's 2015 Global Human Capital Trends report, one of the largest longitudinal studies of talent, leadership and human resource challenges and readiness around the world, observes that a focus on leadership is the key to building sustainable organization performance. Effective leadership is a consequence of leadership style and behavior that results in the achievement of desired organizational outcomes (Yukl, 2012). Previous leadership research have focused on leadership style as the key to why leaders of some organizations successfully execute strategies that lead to excellent business results while others fail to translate strategic intent into desired outcomes (Lee & Hee, 2016).

The influence of leadership style on organizational performance has been a subject of attention among academics and practitioners in the area of leadership. This interest has been triggered by research studies that have demonstrated that leadership style significantly affects performance in organizations (Jing & Avery, 2016). In understanding the link between leadership and performance, various leadership styles and models have been applied to explain the influence of different leadership behaviors in organizations (Northouse, 2013).

Intellectual stimulation is a character of leaders who inspire people's creativity and innovativeness, encouraging them to question norms and seek for new approaches and solutions to problems (Hall & Keilitz, 2012). A transformational leader is expected to exhibit intellectual stimulation (Bass & Avolio, 2006). Key aspect of intellectual stimulation is promoting innovation and creativity by the leader, so that team members do not settle for conventional norms and known ways of tackling issues (Elkins & Keller, 2013). Geyer and Steyrer (2010) further argue that through intellectual stimulation, new frameworks are established that enable people to constructively dismantle old assumptions and essentially develop more innovative methods and approaches. By this, Bass (1985) posit that team members will feel that they have the power to consider new paths and ideas to follow without fear of reprimand, and essentially will lead to better performance outcomes at individual and organizational levels.

Rassol (2015) examined leadership styles and its impact on employee's performance in health sector of Pakistan. The study concluded that transformational leadership styles have a positive effect on employee performance. Further, they found out that transformational leadership can perform better in highly organic environment where focus is on competitive advantages. Further, Raja and Palanichamy (2012) examined the effect of transformational leadership styles on employee performance in public vs. private sector enterprises in India. From 43 middle-level managers and 156 subordinates, the study results indicated sufficient evidence, at the 5% level of significance, that there is a linear positive relationship between transformational leadership and employee performance.

In South Africa, Hayward, Davidson, Pascoe, Tasker, Amos and Pearse (2003) found transformation leadership to be more effective than transactional leadership in increasing employee performance. The researchers found a significant positive linear relationship between transformational leadership and employee performance but no significant linear relationship between transactional leadership and employee performance in a South African pharmaceutical organization.

A study to investigate the effect of transformational leadership on the performance of staff targeting commercial state owned enterprises, established that idealized influence, inspirational motivation, intellectual stimulation and individualized consideration of the leaders, positively influences organization culture and performance (Ngaithe, K'Aol, Lewa, & Ndwiga, 2016). In the private sector, Juma and Ndisya (2016) established that transformational leadership has a positive effect on employee performance in a study that targeted Safaricom employees. The target respondents for this study were line managers, support staff, quality analysts and customer care representatives.

1.2 Statement of the Problem

Banking is the focal part of the financial sector in every economy; hence the strength of banking system becomes crucial in ensuring growth as well as favorable economic stability. Banks are the main component of financial services sector in ensuring favorable economic stability and growth (Koch & McDonald, 2013). However, the recent collapse of three commercial banks in Kenya; Chase bank, Dubai bank and Imperial bank shows that there is a leadership gap (CBK, 2016). The collapse can be attributed to managers' poor assessment of bank risks or failure to deal with the risks properly. As such the stockholders, creditors, depositors, and other stakeholders have had to incur huge financial losses following the collapse of the banks. In August 2015, Dubai bank Kenya was placed under receivership by the Central Bank of Kenya (CBK) who then appointed Kenya Deposit Insurance Cooperation (KDIC) as the receiver. As reported by the CBK, the main challenges leading to the collapse of the Dubai bank was capital deficiencies and poor leadership. The bank had been breaching its daily cash reserve ratio (CRR) requirement of 5.25 per cent (CBK, 2016). Furthermore, the bank had failed to honor some of its financial obligations, such as paying off KES 48 million which it owed to the Bank of Africa Kenya.

In October 2015 the CBK put Imperial bank under statutory management. The main reason for receivership of Imperial bank was unsafe and unsound business conditions and poor governance. At the time Imperial bank was taken over by KDIC the bank had about 53,000 customers with deposit estimated at KES 58 billion. On 21 June 2016, NIC Bank was appointed as asset and liabilities consultant for Imperial Bank (in receivership) by the Central Bank of Kenya. The major causes for placement were associated with failure to meet the statutory banking ratios and under-reporting of insider loans. The insider loans stood at KES 13.62 billion compared to the KES 5.72 billion it reported. The main issue at Chase Bank was management problem. The bank granted large loan amounts to its directors of about KES 13.62 billion in violation of insider lending guidelines.

The collapse of the above mentioned banks is an indication that there is performance problem in the banking sector. As a result of poor performance, the banks are not able to meet their financial obligations, for instance, Chase Bank was unable to payoff KES 48 million which it owed to the Bank of Africa Kenya. Furthermore, failure by the banks to make profit could be linked to poor leadership performance. There is, therefore, need to investigate the role of transformation leadership on the performance of banks.

Several studies have been conducted relating to transformational leadership style. Kimeto (2017) study sought to establish the influence of intellectual stimulation on organizational commitment. Nyokabi (2017) sought to determine the effect of intellectual stimulation of the Chief Executive Officer (CEO) on the performance of senior managers in the private sector in Kenya. The study findings revealed that the CEO's intellectual stimulation significantly predicted performance of senior managers.

European Journal of Business and Strategic Management
ISSN 2518-265X (Online)
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Most of these studies reviewed above did not focus on the role of transformation leadership and particularly, intellectual stimulation in influencing the performance of tier 1commercial banks in Kenya. It is on this premise that the current study sought to fill this research gap by determining the role of intellectual stimulation on the performance of commercial banks in Kenya.

1.3 Specific Objective

To establish the influence of intellectual stimulation on the performance of commercial banks in Kenya

1.4 Research Hypothesis

H_{01}: Intellectual stimulation does not have a significant influence on the performance of commercial banks in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Competency Theory

The competency theory is the theory of strategy that prescribes actions to be taken by organizations to achieve competitive advantage in the marketplace (Javidan, 1998). The concept of core competency states that firms must play to their strengths or those areas or functions in which they have competencies. In addition, the theory also defines what forms a core competency and this is to do with it being not easy for competitors to imitate, it can be reused across the markets that the firm caters to and the products it makes, and it must add value to the end user or the consumers who get benefit from it. In other words, companies must orient their strategies to tap into the core competencies and the core competency is the fundamental basis for the value added by the firm.

The theory is relevant to the current study since it explains the idea of intellectual stimulation. Intellectual Stimulation involves as leader's ability to challenge the subordinates thinking capability, their way of seeing problems in new ways and their creativity (Bass, 1985). It is the leader's ability to challenge the subordinates intellectually, to encourage them to do more than is expected of them, to enable subordinates to optimize their abilities and competencies to be creative and innovative in the way they perform their duties (Limsila & Ogunlana, 2008). Based on the theory, a leader should be able to bring out the competency of his/her followers, and this will lead to improved performance.

2.1.2 Shareholders' Wealth Maximization Theory

Shareholders' wealth maximization theory defines the primary duty of organizations' managers as the maximization of shareholder wealth (Jensen, 2004). The theory enjoys widespread support in the academic finance community and is a fundamental building block of corporate financial theory. The shareholder value maximization hypothesis predicts that a firm will engage in risk management policies if, and only if, they enhance the firm's value and thus its shareholders' value. This goal is credit with the advantages that it considers all direct stakeholders of the firm, it is a long term objective and considers all the cash flows and also that it considers uncertainty of returns since discounting rate can be adjusted according to the riskiness of the project.

However, the Shareholder model has been criticized for encouraging short-term managerial thinking and condoning unethical behavior. Smith (2003), notes that critics believe Shareholder Theory is "... geared towards short-term profit maximization at the expense of the long run." Further, he asserts that Shareholder Theory "involves using the prima facie rights claims of one group shareholders to excuse violating the rights of others."

However, Jensen (2004), argue out that such critics are misguided because wealth maximization is inherently a long term goal, the firm must maximize the value of all future cash flows and does not condone the exploitation of other stakeholders. The criticisms are understandable because many proponents of Shareholder Theory, in a stylized version of the model, exhort managers to maximize the firm's current stock price.

The theory is relevant to the current study since it explains the primary role of managers in an organization. The management of an organization plays a significant role in ensuring that the expectations of the shareholders are met. One of the key expectations of the shareholders is to have their wealth maximized. However, it is not possible for managers to achieve the goal of wealth maximization while still holding on to inefficient leadership practices. There is, therefore, need for managers to embrace transformational leadership styles, if they are to achieve the goal of maximizing the shareholders' wealth. The theory, therefore, advances the dependent variable in this study, which is performance of commercial banks in Kenya.

2.2 Empirical Review

Mwesigwa and Namiyingo (2014) indicate that leaders who are open-minded tend to intellectually influence their subjects. Such leaders will want to challenge the norm and make a case out of every argument; this encourages their subordinates to intellectually challenge themselves more. With more cognitive thinking, the people are able to gain more knowledge, which helps to better their lives. Transformational leaders are always in the fore front to challenge assumed information. They make sure that every bit of fact has been argued to satisfy its validity. Such leaders encourage people to think critically and make mistakes as it is the only way they are able to learn new ways of doing things (Ul Hassan, Malik, Hasnain, Faiz & Abbas, 2013). With such encouragement, employees are able to venture more into the unknown and hence discover new potential.

Kimeto (2017) study sought to establish the influence of intellectual stimulation on organizational commitment in commercial banks in Kenya. The study adopted the positivist research philosophy and descriptive correlational design. A sample of 150 was drawn from a population of 240 senior managers of the 40 commercial banks of Kenya using stratified random sampling technique. Data was analyzed using inferential statistics such as Pearson correlations, Chi Square, ANOVA and multiple linear regressions. The study findings indicated that intellectual stimulation significantly predicted organizational commitment.

Utami (2013) sought to determine whether the intellectual stimulation can influence innovation which is mediated by knowledge sharing, and whether innovation can improve organization's performance. The model tested on the 56 owners of small and medium enterprises (SMEs) in Tegal, Indonesia. Utilizing purposive sampling technique, with the following criteria; company has a workforce 5 to 100 people, engaged in the metal and machinery industry, not including to foreign-owned companies. Software analysis techniques PLS (Partial Least Square) were used in this research. The final results indicated that there were positive effects on intellectual stimulation, experiential sharing and explicit knowledge sharing; explicit knowledge sharing has a positive effect on product innovation and product innovation has a positive effect on business performance.

European Journal of Business and Strategic Management
ISSN 2518-265X (Online)
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While experiential sharing has a positive effect on product innovation, it is not significant. This study results link the use of transformational leadership (intellectual stimulation) to better organization performance.

Nyokabi (2017) sought to determine the effect of intellectual stimulation of the Chief Executive Officer (CEO) on the performance of senior managers in the private sector in Kenya. The study adopted the positivism research philosophy and descriptive correlational research design. The target population consisted of 984 senior managers reporting to the CEOs of 183 private sector companies under the umbrella of the Kenya Private Sector Alliance (KEPSA). A sample size of 284 was drawn using stratified random sampling, and data was collected using structured questionnaires. Data was analyzed using descriptive statistics namely frequencies, means, and standard deviation. Inferential statistics were also used in the analysis which included Pearson's correlation, Analysis of Variance (ANOVA) and multiple linear regressions. The study findings revealed that the CEO's intellectual stimulation significantly predicted performance of senior managers.

2.3 Conceptual Framework

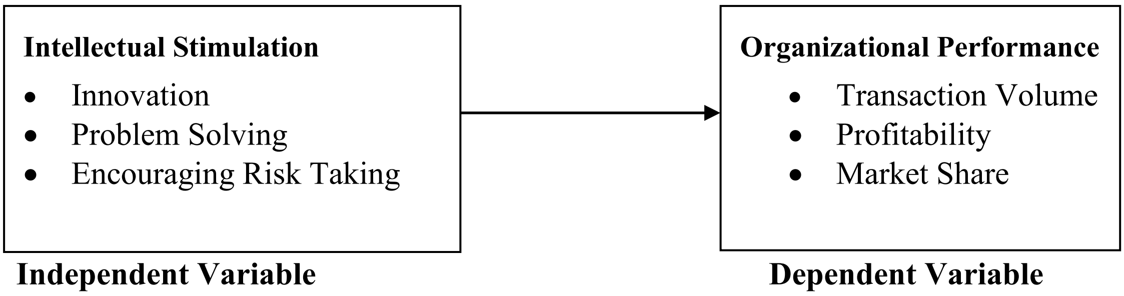

Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

The study employed mixed research design, which included both qualitative and quantitative methods. The study target population was all tier 1 commercial banks in Kenya. According to CBK, there are seven tier 1 banks namely; Kenya Commercial Bank, Equity Bank, Cooperative Bank, Standard Chartered Bank, Barclays Bank, Diamond Trust Bank and Commercial Bank of Africa. The choice of tier 1 banks as the unit of observation was justifiable since they contribute to over 50% of all banking employees, and therefore, they form a good ground for random stratification. The study covered a target population of 24,244 employees working in the seven banks. A sample size of 384 was selected from all the seven banks using stratified random sampling. Primary data was collected using well-structured questionnaires. Multiple linear regression model was used to estimate the coefficients using statistical package for the social sciences (SPSS version 23). Descriptive and inferential analyses were used to analyze the data.

4.0 RESEARCH FINDINGS AND DISCUSSION

4.1 Demographic Characteristics

4.1.1 Gender of Respondents

The respondents were asked to indicate their gender. Results in Table 1 reveal that majority of the respondents (51%) were male while 49% were female. The ratio of male to female employees in the banking industry is almost equal. This is an indication that the banking industry appreciates the importance of gender equality.

Table 1: Gender of Respondents

Response	Frequency	Percent
Male	151	51%
Female	144	49%
Total	**295**	**100**

4.1.2 Age of the Respondents

The respondents were asked to indicate their age bracket. Results in Table 2 reveal that 31.2% of the respondents were between 36-40 years, 28.1% indicated 41-45 years, 22.4% indicated 31-35 years, 9.8% indicated above 45 years while 8.5% indicated less than 30 years. This implies that majority of employees in the seven top banks are middle-aged and therefore have the strength and aggressiveness to influence performance of their organizations.

Table 2: Age of the Respondents

Response	Frequency	Percent
Less than 30 years	25	8.5
31-35 years	66	22.4
36-40 years	92	31.2
41-45 years	83	28.1
Above 45 years	29	9.8
Total	**295**	**100**

4.1.3 Respondents' Education Level

The respondents were asked to indicate their level of education. Results in Table 3 show that 47.1% of the respondents were university graduates, 32.5% were post graduates while 20.3% were college graduates. This implies that all the respondents have the necessary academic qualification to influence performance of the banks.

Employees with higher education qualifications are expected to impact on organization performance better than those with less academic qualifications. Therefore, post graduate employees are expected to have more impact of organization performance. This is line with Dada (2016) findings that a significant difference exists in the performance of students taught by professional and experienced teachers.

Table 3: Respondents' Education Level

Response	Frequency	Percent
College	60	20.3
University	139	47.1
Post Graduate	96	32.5
Total	**295**	**100**

4.1.4 Respondents Work Experience

The respondents were asked to indicate the number of years they had worked in the banking industry. Results presented in Table 4 reveal that 38% of the respondents have worked in the banking industry for 11 to 15 years, 23.7% indicated 5 to 10 years, 22% indicated over 15 years while 16.3% indicated less than 5 years. This implies that majority of the employees have been in the banking industry for long. This means that the employees have acquired the necessary transformational leadership skills and therefore, they are likely to influence the banks' performance. The findings agree with that of Quińones, Ford and Teachout (2015) who found that work experience had the highest correlations with measures of job performance.

Table 4: Respondents Work Experience

Response	Frequency	Percent
Less than 5 years	48	16.3
5 to 10 years	70	23.7
11 to 15 years	112	38
Over 15 years	65	22
Total	**295**	**100**

4.2 Descriptive Statistics Analysis

Descriptive statistics such as frequency, percentage, mean and standard deviation were jointly used to summarize the responses as presented in Table 5. Results revealed that majority of the respondents who were 86.1% (42.4%+43.7%) agreed with the statement that our organization leadership encourages innovation among the employees, 2.4% moderately agreed while 11.5% disagreed. Also, 88.1% of the respondents agreed that our organization leadership encourages employees to be problem solvers by giving them an opportunity to handle challenging tasks, 1.7% moderately agreed while 10.1% disagreed with the statement. Further, 79.7% agreed that our organization leadership challenges employees to take calculated risks, 3.1% moderately agreed while 17.3% disagreed with the statement. In addition, 84.4% agreed that our organization leadership encourages participative leadership where all employees are involved in decision making, 3.1% moderately agreed while 12.5% disagreed. Lastly, 82.4% agreed with the statement that employees in our organization are encouraged to critically re-examine their decisions, 2.4% moderately agreed while 15.3% disagreed with the statement.

Using a five-point scale likert mean, the overall mean of the responses was 4.09 which indicates that majority of the respondents agreed with the statements about idealized influence. Additionally, the standard deviation of 1.19 indicates that the responses were varied.

The study findings agree with that of Wah (2010) who found a significant relationship between transformational leadership and innovation performance. The results herein imply that intellectual stimulation affects the performance of commercial banks in Kenya.

Table 5: Intellectual Stimulation

Statements	Strongly disagree	Disagree	Moderately Agree	Agree	Strongly Agree	Mean	Std. Dev
Our organization leadership encourages innovation among the employees.	3.70%	7.80%	2.40%	42.40%	43.70%	4.15	1.04
Our organization leadership encourages employees to be problem solvers by giving them an opportunity to handle challenging tasks.	3.70%	6.40%	1.70%	47.10%	41.00%	4.15	1.00
Our organization leadership challenges employees to take calculated risks.	5.10%	12.20%	3.10%	39.00%	40.70%	3.98	1.18
Our organization leadership encourages participative leadership where all employees are involved in decision making.	4.70%	7.80%	3.10%	44.70%	39.70%	4.07	1.08
Employees in our organization are encouraged to critically re-examine their decisions.	5.10%	10.20%	2.40%	34.60%	47.80%	4.10	1.17
Average						**4.09**	**1.09**

4.3 Correlation Analysis

Results in table 6 indicate the correlation results between intellectual stimulation and performance of commercial banks in Kenya. The results revealed that there was a positive and significant association between intellectual stimulation and performance of commercial banks (r=0.509, p=0.000). This means that both intellectual stimulation and performance of commercial banks change in the same direction. Further, the correlation coefficient of 0.864 reveals a strong association between intellectual stimulation and performance of commercial banks in Kenya.

However, the study findings disagree with that of Samaitan (2014) who examined the impact of leadership style on organizational performance in commercial Banks in Kenya. The study found negative correlation between leadership style and organizational performance.

Table 6: Correlation Matrix

		Performance	Intellectual Stimulation
Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Intellectual Stimulation	Pearson Correlation	.509**	1.000
	Sig. (2-tailed)	0.000	

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

4.4 Regression Analysis

The study sought to establish the relationship between intellectual stimulation and performance of commercial banks. An ordinary least square regression model was used. The results of the model summary are given in Table 7. The findings revealed that intellectual stimulation explained 25.9% of the total variations in performance of commercial banks in Kenya. This is supported by coefficient of determination also known as the R square of 25.9%.

Table 7: Model Fitness

Indicator	Coefficient
R	0.509
R Square	**0.259**
Adjusted R Square	0.257
Std. Error of the Estimate	0.3364954

Table 8 provides the results on the analysis of variance (ANOVA). The results indicate that the overall model was statistically significant. This was supported by the reported F statistic of 102.603 which is greater than the critical value of 3.84. The results were further supported by a reported p value of 0.000 which was less than the conventional probability of 0.05. The results imply that the model linking intellectual stimulation to performance is statistically significant.

Table 8: Analysis of Variance

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	11.618	1	11.618	102.603	.000[b]
Residual	33.176	293	.113		
Total	44.794	294			

Table 9 presents the regression of coefficients results. The findings show that there is a positive and significant relationship between intellectual stimulation and performance of commercial banks in Kenya as supported by a p value of 0.000 and a beta coefficient of (0.596). This implies that an increase in intellectual stimulation by 1 unit would increase the performance of commercial banks by 0.596 units.

The study findings agree with that of Feng, Huang and Zhang (2016) who observed that to spur innovation at the leadership level, leaders must be proactive by developing adequate plans and schedules for generation and implementation of new ideas. CEO's leadership can enhance the senior management's tendency to contribute to the organization's creative process by openly sharing their knowledge with their peers.

Table 9: Regression of Coefficients

	B	Std. Error	t	Sig.
(Constant)	1.753	.259	6.755	.000
Intellectual Stimulation	.596	.059	10.129	.000

The specific model;

$Y= \beta_0+ \beta_1 X_1 +e$

Performance = 1.753+0.596 Intellectual Stimulation

4.5 Hypothesis Testing

The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criteria was that, if the calculated t statistic was greater than the critical t statistics (1.96), the H_0 is rejected but if it less than 1.96, the H_0 fails to be rejected, The null hypothesis was that intellectual stimulation does not have a significant influence on the performance of commercial banks in Kenya. The regression of coefficient results showed that the calculated t statistic (10.129) was greater than the critical t statistics (1.96). This indicated that the null hypothesis was rejected hence intellectual stimulation has a significant effect on the Performance of commercial banks.

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The objective of the study was to determine the influence of intellectual stimulation on the performance of commercial banks in Kenya. Descriptive results indicated that majority of the organization leadership encourages innovation among the employees, encourages employees to be problem solvers by giving them an opportunity to handle challenging tasks, challenges employees to take calculated risks, encourages participative leadership where all employees are involved in decision making and that employees are encouraged to critically re-examine their decisions. Correlation analysis showed that intellectual stimulation and performance of commercial banks are positively and significantly associated.

Regression analysis indicated that intellectual stimulation has a positive and significant effect on the performance of commercial banks in Kenya. The hypothesis results indicated that there is a significant relationship between intellectual stimulation and the performance of commercial banks in Kenya.

5.2 Conclusion

Based on the findings, the study concluded that intellectual stimulation affects the performance of commercial banks in Kenya. This can be explained by the regression results which showed that the effect was positive and also showed the magnitude by which intellectual stimulation influenced the performance of commercial banks. The regression results showed that intellectual stimulation influenced the performance of banks by 0.596 units.

5.3 Recommendation

The study established that intellectual stimulation had a significant effect on the performance of commercial banks in Kenya. Therefore, the study recommended that the banks' leadership should intellectually stimulates the senior managers through challenging their assumptions, encouraging risk taking and promoting innovation. These behaviors have shown a positive influence on the performance of the banks and thus leaders may consider using intellectual stimulation behaviors as approaches for performance improvement for the commercial banks.

5.4 Suggestion for Further Studies

The study sought to establish the influence of intellectual stimulation on the performance of commercial banks in Kenya and, therefore, an area for further studies could consider the influence of intellectual stimulation on other financial institutions such as insurance firms, capital markets and Micro Finance Institutions for the purpose of making a comparison of the findings with those of the current study.

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