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# The Mediating Effect of Psychological Empowerment on the Relationship between Transformational Leadership and Staff Retention in Microfinance Institutions in Kenya

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## Abstract

Retention of the desired staff in microfinance institutions has remained a major challenge as depicted from extant literature. It is often associated with inappropriate leadership deployed in these institutions among other antecedents. The current study, therefore, set out to establish the effect of transformational leadership on staff retention in microfinance institutions in Nairobi City County, Kenya, as well as the mediating effect psychological empowerment on the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi City County, Kenya. The study was guided by Transformational Leadership Theory, Leader-Member Exchange Theory, Social Exchange Theory, and Resource-Based View Theory and founded on the positivism philosophy. Descriptive and explanatory research designs were adopted to guide the study. A sample of 298 respondents was obtained from 12 microfinance institutions in the Nairobi City County, Kenya, through census method for data collection. The unit of analysis was the head offices of the 12 microfinance institutions, while the unit of observation was the senior management level, middle management level and lower management level. Data was collected using structured questionnaires and analysed using descriptive and inferential statistics. The hypotheses were tested at the 5% significance level. The study established that transformational leadership was a significant predictor of staff retention, and that this relationship was partially mediated by the psychological empowerment. The study recommends that the microfinance institutions management should align transformational leadership practices with the strategic goals set for staff retention and emphasize on psychologically empowering strategies for their staff.

**Keywords:** Transformational Leadership, Psychological Empowerment, Staff Retention, Microfinance

## 1. Introduction

The conceptual and empirical literature reviewed in this study show that staff retention is a function of transformational leadership deployed in an institution, psychological empowerment developed in staff by the leaders, staff satisfaction level and organizational commitment of staff towards the organization among other

antecedents. There are many studies that have explored the influence of transformational leadership on psychological empowerment (AlKindy & Magd, 2021; Giang & Dung, 2021; Saira et al., 2021), while others have examined the relationship between transformational leadership and staff retention (Judeh & Abou-moghli, 2019; Tian et al., 2020), as well as psychological empowerment and staff retention (Panda & Sahoo, 2021), but these constructs have been studied disjointedly.

There is, therefore, limited studies researching on the linkage between the three constructs particularly in the microfinance context in a non-segmented form. This study filled this gap by investigating the mediating effect of psychological empowerment on the relationship between transformational leadership and staff retention in microfinance institutions.

Transformational leadership, as conceptualized by Burns (1978) and furthered by Bass in 1985, has widely been conceived as the ability of a leader to move followers from self-aggrandizing interests to others' interests, limited belief to performing better than they thought they could, and low morale to increased morale and motivation (Kasımoğlu & Ammari, 2020; Ma et al., 2020). In spite of the fact that transformational leadership has received a lot of praises for its positive outcomes in organizations such as potential to increase staff retention, it has received an equal measure of criticisms. For instance, the high expectations by leaders for followers to perform better than they thought possible often leads to staff's burnout and stress. This study considers transformational leadership as a function of the four dimensions outlined by Bass in 1985 (Yukl, 2010), namely idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

The relationship between transformational leadership and staff retention is conceptualized in this study as a mediated than direct one. A mediating variable, defined as the causal link between independent and dependent variables (Khalid et al., 2012; Sekaran & Bougie, 2016), increases the strength of the relationship such that a change in independent variable significantly affects the mediator and a change in the mediator affects the dependent variable (Baron & Kenny, 1986). Extant literature shows that psychological empowerment is linked to transformational leadership (AlKindy & Magd, 2021; Saira et al., 2021). Psychological empowerment has been conceived as the perception held by staff towards their job and tasks, and is composed of four dimensions namely meaning, competence, self-determination and impact (Minai et al., 2020; Saira et al., 2021). The meaning element of psychological empowerment refers to how meaningful the staff find their job roles to be from their values and standards perspective (Bharadwaja & Tripathi, 2021). Competence refers to staff's belief in their proficiency in performing tasks (Shah et al., 2019), and can therefore be perceived as their self-efficacy (Bharadwaja & Tripathi, 2021). On the other hand, self-determination is the feeling of autonomy in initiating and sustaining tasks by the staff (AlKindy & Magd, 2021), while impact refers to the conviction the staff have regarding their ability to influence operations of their institutions (Panda & Sahoo, 2021). For overall effectiveness of psychological empowerment in the institutions it is deployed, Turnipseed and VandeWaa (2020) recommend a combination of all the four cognitions of meaning, competence, self-determination, and impact. As such, this study adopted a combination of all the four cognitions. Since psychological empowerment is seen as a potential predictor of staff retention (Ambad et al., 2021; Safari et al., 2020), the current study investigated its mediating effect on the relationship between transformational leadership and staff retention.

Staff retention is the deliberate effort to attract and retain desired staff to continue working in their institutions for the longest period of time, by creating a conducive environment for them (Devi, 2020; Fahim, 2018; Vu & Nwachukwu, 2020; Wambede & Bisaso, 2020). However, studies have revealed that staff retention is a major challenge in most organizations including microfinance institutions particularly due to globalization and increased workforce mobility (Wakabi, 2016; Whatmore & Wiklef, 2020). Since the challenge of staff retention results to disruption in the organizations' operations, increased costs of recruiting and training new staff and reduced morale to the remaining staff among other undesired effects, this study sought to establish how transformational leadership could remedy the challenge through mediation of psychological empowerment.

The study was anchored in the microfinance context, a construct that was coined by Professor Yunus Muhammad in 1970s in order to alleviate poverty by providing access of finances to the poor who cannot access mainstream banking (Kumar & Divya, 2021; Rasel & Win, 2020). A significant number of women is able to access finances

from the MFIs, thus reducing the feminization of poverty where women were seen as poorer than men. Unfortunately, staff retention in these institutions has continued to be a challenge due to ineffective leadership and governance among other factors (Kayembe et al., 2021; Nyasunda & Atambo, 2020), which slows achievement of these goals.

### *1.1. Statement of the problem*

There is a global concern on the challenge of staff retention in MFIs emanating from inappropriate leadership and stiff competition from mainstream banking due to globalization (Gathondu et al., 2018a; Javeed et al., 2021). This threatens the sustainability of the MFIs as well as achievement of their goal of reducing poverty and its feminization.

While numerous studies have investigated the relationship between transformational leadership and staff retention (Kariuki et al., 2022), the mediation of this relationship has not been sufficiently explored (Stanescu et al., 2020). Other studies consider psychological empowerment as a dependent variable predicted by transformational leadership (Al Harbi et al., 2019), but the current study investigates the mediating effect that psychological empowerment has on the relationship between transformational leadership and staff retention.

Gathondu et al., (2018) observe that there are scanty empirical studies on the constructs of transformational leadership and staff retention, and that most studies in these constructs are theoretical in nature. Similar concerns are presented by Nuo and Hee (2020), as well as (Odumeru & Ifeanyi, 2013). The current empirical investigation on the three constructs of transformational leadership, psychological empowerment and staff retention is timely in filling in this knowledge gap.

There emerges a conceptual gap from the existing studies where more attention has been paid on staff turnover as an outcome of transformational leadership than staff retention which is the desired outcome (Gan & Yusof, 2019). The current study presents a more concise conceptual framework linking transformational leadership to staff retention through psychological empowerment as the mediator.

## **2. Literature Review**

### *2.1. Theoretical Review*

A theoretical framework is described as a set of theories or interrelated concepts that explains how a given phenomenon occurs, supported by verified data (Sikawa et al., 2018; Owuor et al., 2020). The current study was guided by The Transformational Leadership Theory, Leader-Member Exchange Theory, Social Exchange Theory, and Resource-Based Theory to explore the relationship between transformational leadership, psychological empowerment and staff retention as outlined in this section.

#### *2.1.1. Transformational Leadership Theory*

The Transformational Leadership Theory was proposed by James Burns in 1978 and further developed by Bernard Bass in 1985. The theory opined that a leader can act as a change agent by motivating his followers into achieving more than what they could have conceived as possible by changing their status quo (Mwesigwa et al., 2020). However, the theory is criticized of masking its negative outcomes in organizations such as staff's burnout and stress due to high targets set for them by the leaders, and only focus on its positive outcomes (Odumeru & Ifeanyi, 2013).

Mugizi et al. (2019) used the theory to examine the relationship between transformational leadership and teachers' retention, and found a positive significant correlation between the two variables. Similarly, Okoth (2018) used the theory to investigate how transformational leadership was implemented in the curriculum in Siaya County in Kenya. The current study opted for this theory because of its ability to yield desired organizational outcomes such as staff retention and positive attitude among others when deployed in organizations (Walumbwa et al., 2008).

### 2.1.2. Leader-Member Exchange Theory

The Leader-Member Exchange (LMX) Theory postulates that a certain informal relationship develops over the time as the leader interacts with each subordinate (Yukl, 2010). Such a relationship results to a form of exchange between the leader and subordinates such that the subordinates respect and follow the leader willingly when they perceive a high-quality dyad (Adero & Odiyo, 2020; Kariuki, 2020; Northouse, 2016). The key proponents of this theory were Graen and Cashman in 1975, and Dansereau, Graen, and Haga in 1975.

Kanake and Kemboi (2020) utilized this theory in their investigation of the relationship between employee empowerment and innovative work behaviour. The study revealed that the kind of relationship that exists between the leader and followers influence the nature of exchanges between the two parties. Based on this argument, the current study used the Leader-Member Exchange Theory to explain the nature of the relationship that forms between a leader and staff so that the staff respects the leader and consequently the leader effectively influences the staff to perform more that they initially thought they would perform.

### 2.1.3. Social Exchange Theory

The theory postulates that followers feel morally obliged to reciprocate the good behaviours they perceive from their leaders, and they do so by being more loyal and committed to the leaders and organization (Bouraoui et al., 2019; Chiu et al., 2020; Pattnaik & Sahoo, 2021). The main contributors to the theory are Blau in 1964, Homans in 1958, Thibaut and Kelley in 1959, Hollander in 1958 and Jacobs in 1970. Although the reviewed literature show that followers who feel psychologically empowered become more committed and satisfied with their leaders (Minai et al., 2020; Stanescu et al., 2020), those who have critiqued the theory have argued that leaders do good to followers to lure them for self-aggrandizing interests than altruistic interests of the followers and organization (Muldoon et al., 2018).

Saira et al. (2021) anchored their study on the social exchange theory in establishing the influence of transformational leadership on employee outcomes, mediated by psychological empowerment. The study revealed a positive significant influence of transformational leadership on psychological empowerment, which leads to reciprocation by followers with desire to stay in their organizations. The current study, therefore, adopts this theory to explain how the staff decides to remain in their organizations when they perceive their leaders as psychologically empowering.

### 2.1.4. Resource-Based View (RBV) Theory

Resource-based view (RBV) theory states that the survival of a company depends on both its tangible and intangible resources (Lu et al., 2021; Shahzad et al., 2020). The theory was authored by Barney (1991) who argued that an organization ought to have resources that add value to it. It was furthered by Penrose in 1959, Wernerfelt in 1984, and Rumelt in 1984 (Armstrong, 2014; Zubac et al., 2010). While Enriquez de la O (2015) recommends that resources should be combined to yield competitive advantage for the organization, critiques of the theory have pointed out that the theory is ambiguous on which resources should be combined to achieve this purpose (Burvill et al., 2018).

Tayal et al. (2021) anchored their study on The Resource-Based View Theory in exploring the effect of transformational leadership on the effectiveness of banks in India. The study observed that there is need to combine resources with leadership skills to increase the organization's competitiveness. The current study used the theory to illustrate that committed and talented staff are a great resource to the organization as asserted by Luna-Arocas et al. (2020).

## 2.2. Conceptual and Empirical Review

This section interrogates previous empirical studies and identifies conceptual, contextual, methodological and knowledge gaps that warrant for more research. It also compares and contrasts the studies to determine replicability of the current study in other studies and contexts.

### 2.2.1. Transformational Leadership and Staff Retention

There has been an ongoing discourse among scholars that staff do not leave organizations, but rather quit their leaders (Ronald et al., 2016). This suggests that the solution to staff retention challenge lies in the kind of leadership deployed in the organizations. On one hand, transformational leadership can result to stress and burnout when leaders expect higher performance from the followers than they can manage (Parveen & Adeinat, 2019), but on the other hand, transformational leadership is seen to correlate positively with organizational outcomes such as staff retention (Nuo & Hee, 2020).

The study by Judeh and Abou-moghli (2019) found a positive significant correlation between transformational leadership and staff's intention to stay in the organization. Similar results were obtained by Almas et al. (2020) in their investigation of the effect of transformational leadership on retention of volunteering employees in Spain, as well as the study by Tian et al. (2020) who investigated the effect of transformational leadership on employee retention in SMEs.

### 2.2.2. Transformational Leadership, Psychological Empowerment and Staff Retention

Saira et al. (2021) investigated the mediating role of psychological empowerment in the relationship between transformational leadership and organizational citizenship behaviour and turnover intention, confirming a strong relationship between transformational leadership and psychological empowerment. Psychological empowerment partially mediated the relationship. A similar study was conducted by Samuel and Engelbrecht (2021) who sought to assess the impact of transformational leadership on employee's intention to quit an organization, considering psychological empowerment as one of the mediators. There was a negatively significant relationship between the variables.

In their investigation of psychological empowerment effect on staff satisfaction, Kivuva et al. (2019) considered only one cognition of psychological empowerment, namely meaning, leaving out competence, self-determination and impact. Since this would alter the overall impact of psychological empowerment on organizational outcomes (Pradhan et al., 2017; Turnipseed & VandeWaa, 2020), the current study conceptualized psychological empowerment as constituted of all the four cognitions.

Based in Nigerian context, Owan et al. (2020) considered psychological empowerment as a mediator between employee's work-life policies and job commitment, establishing that psychological empowerment had a significant effect on all the three dimensions of commitment. In the current study, staff commitment is considered as one of the measures of staff retention which is the dependent variable, while transformational leadership is conceptualized as the independent variable. The current study also extended the context from educational to microfinance context.

## 2.3. Conceptual Framework and Hypothesis Formulation

A conceptual framework aids research by providing a researcher with a clear roadmap and logical propositions upon which the study is anchored (Miles et al., 2014; Ravitch & Riggan, 2017). The current study conceptualized transformational leadership as the independent variable, staff retention as the dependent variable, and psychological empowerment as the mediating variable comprised of meaning, competence, self-determination and impact as conceptualized by Spreitzer (1995).

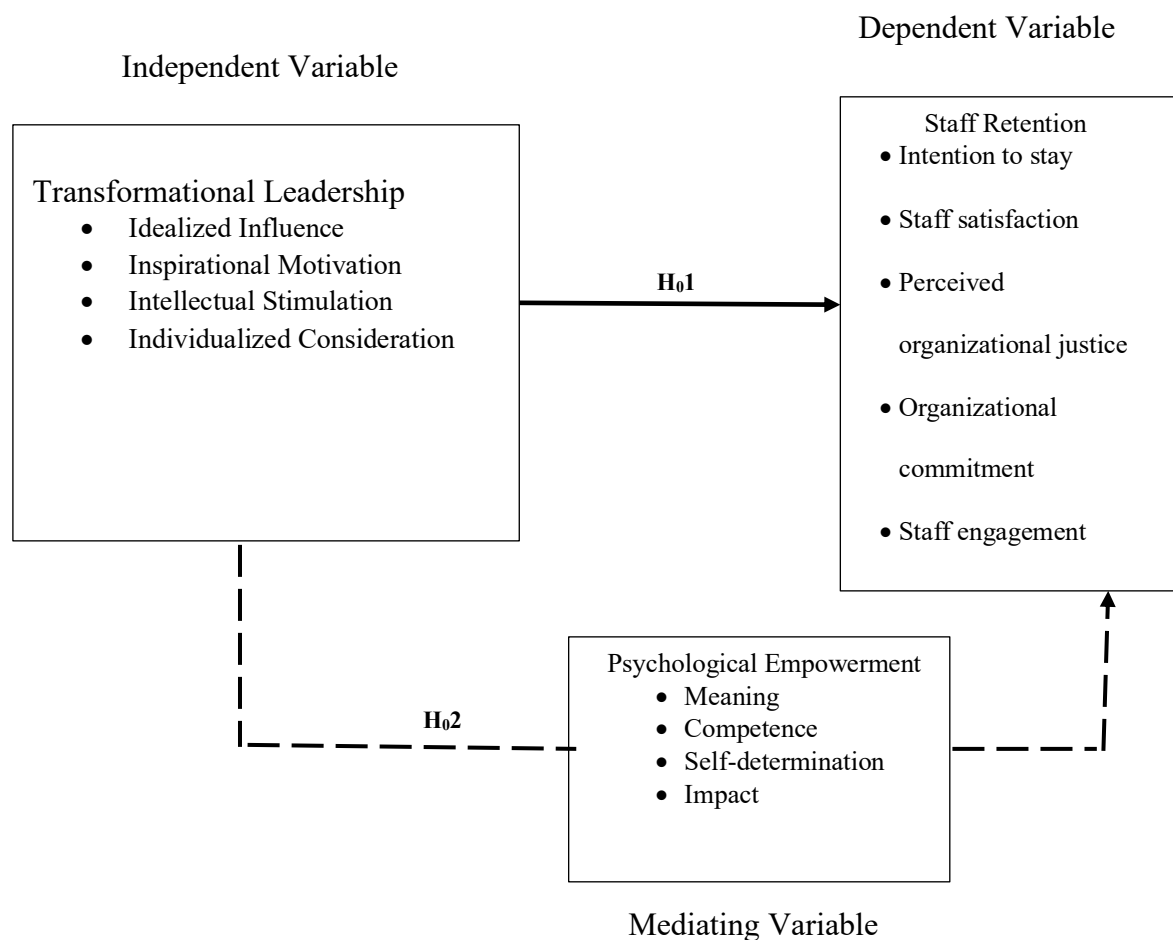


Figure 2.1: Conceptual Framework

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:** Psychological empowerment has no significant mediating effect on the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi City County, Kenya.

### 3. Research Methodology

#### 3.1. Research Philosophy

Since the study seeks to explore the phenomenon as it happens without researcher's interference as recommended by Saunders et al. (2007), the objectivist approach was used where structured questionnaire was physically administered for data collection. Such a positivist approach allows for generalizability of results to the entire population (Lan, 2018). Additionally, positivist epistemology was adopted for the study, justified by the fact that the study was quantitative in nature and deductive as guided by theoretical framework.

#### 3.2. Research Design

The current study adopts descriptive and explanatory research designs which are recommended for an investigation that seeks to ascertain characteristics of the study's variables and to explain the effect of an independent variable

on the dependent variable respectively (Amjad et al., 2020; Creswell, 2012; Kothari, 2004; Sekaran, 2003). The study described the phenomenon between transformational leadership, psychological empowerment and staff retention as it is without interfering with the setting and respondents, and established the relationship among the variables.

### 3.3. Target Population

A total of 12 MFIs constituted the unit of analysis for the study (Central Bank of Kenya, 2020). This comprised of the MFIs licenced by the Central Bank of Kenya and have headquarters in the Nairobi City County and were accessible for data collection. Census was used as the sampling method as required of a small population (Bryman, 2012). Sammut et al. (2021) used this sampling method to collect data from 350 nurses. Table 3.1 summarizes 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

### 3.4. Data Analysis

The collected data was analysed using descriptive and inferential statistics. Specifically, the descriptive statistics used were measures of central tendency and standard deviation. This enables replication of the study (Zadrozny et al., 2016) and interpretation of other statistical data analysis (Whittemore & Melkus, 2008). The inferential statistics used were the correlation analysis for establishing the relationship between the variables and regression analysis to test the study's hypothesis (Mugenda & Mugenda, 2019). To verify that the data did not violate statistical assumptions, diagnostic tests were conducted as presented in Table 3.2

Table 3.2: Summary of Diagnostic Tests

Diagnostic test	Test	Observation	Conclusion
Normality	Skewness and Kurtosis	-.871 and 1.118 respectively.	Data was normally distributed since the values were within $\pm 3$
Heteroscedasticity	Levene test	$p > 0.05$	No heteroscedasticity
Multicollinearity	Variance Inflation Factor (VIF)	$VIF < 10$ ( $VIF = 1.865$ )	No multicollinearity
Linearity test	Scatter Plots	Normal PP line	Data was linearly distributed

## 4. Research Findings

### 4.1. Response Rate

Table 4.1 shows the response rate by the respondents at different strata.

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%

A response rate of 70.5% was obtained. Babbie (2010) avers that a response rate above 70% is sufficient for a reliable results analysis and presentation.

#### 4.2. Respondents Characteristics

The characteristics of respondents that were regarded as important attributes in influencing their responses were summarized in Table 4.2

Table 4.2: Respondents' Characteristics

##### Respondent's Gender

		Frequency	Percent
Valid	Male	94	44.8
	Female	116	55.2
	<b>Total</b>	<b>210</b>	<b>100.0</b>

##### Respondent's Age

		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
	<b>Total</b>	<b>210</b>	<b>100.0</b>

##### 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
	<b>Total</b>	<b>210</b>	<b>100.0</b>

##### 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
	<b>Total</b>	<b>210</b>	<b>100.0</b>

##### 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
<b>Total</b>	<b>210</b>	<b>100.0</b>

From Table 4.2, it can be deduced that there is gender balance in leadership, with females being 55.2 % and males 44.8%. The majority of the staff were middle aged, ranging between 24 to 44 years. 80% and above of the respondents had a Bachelor's degree or higher, suggesting that they were well informed about the phenomenon being studied. The responses were seen to be free of self-reported data bias since most of the respondents, 67.6%, came from the lower level management staff. Also, most of the respondents (76.6%) had over 1 year experience of working in the same institution, suggesting that their responses were credible. The observation that only 5.7% of the respondents had worked for over 10 years can be attributed to the fact that many new MFIs have come into the market thus increasing workforce mobility.

#### 4.3. Descriptive Statistics

The characteristics of the study's variables were summarized in Table 4.3.

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

From Table 4.3, it is noted that all the variables had a Cronbach Alpha above 0.7. The values fall within the acceptable range (Hair et al., 2019). This implies that the instrument used for data collection was reliable. The respondents were in consensus that idealized influence was practiced in the MFIs studied as shown by the mean of 4.32 and standard deviation of 0.695, similar to findings from the studies conducted by Edirisooriya (2020) and Otieno et al. (2019a). Inspirational motivation was also practiced (mean = 4.30; standard deviation of 0.762), which confirms the findings obtained from the study conducted by Komakech et al. (2021a). The mean score of 4.19 for intellectual stimulation variable implied that intellectual stimulation was deployed in the microfinance institutions. Thuan (2020) obtained similar results. Individualized consideration was also practiced (mean = 3.99) in microfinance institutions, but the high standard deviation of 0.979 shows that respondents varied in their view regarding this construct. There was average retention of employees among MFIs in Nairobi City County as shown by the mean score of 3.68 and the standard deviation of 0.970.

#### 4.4. Test of Hypotheses

The hypotheses of the current study were tested using linear regression. The results were interpreted at 0.05 significance level such that the null hypotheses were rejected if  $p < 0.05$  and accepted if  $p \geq 0.05$ .

Hypothesis one stated that transformational leadership has no significant effect on staff retention. This was determined by use of multiple linear regression. 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 <sup>a</sup>	.714	.709	.26938

The value of coefficient ( $R = 0.845$ ) in Table 4.4 reveals a strong and positive correlation between transformational leadership and staff retention. The adjusted R Square ( $R^2$ ) value of 0.709 suggested that 70.9% of variation in staff retention was predicted by transformational leadership while the remaining 19.1% of the variation was as a result of other factors than transformational leadership.

Table 4.5 shows the ANOVA results for the regression model.

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 <sup>b</sup>
Residual	15.094	205	0.074		
Total	52.844	209			

Since the P-value ( $p = 0.000$ ) was less than the significance level of 0.05, the model was found to be fit for predicting staff retention.

The significance of beta coefficients for the model was established and the results determined and summarized as shown in Table 4.6.

Table 4.6: Table of Regression Coefficients<sup>a 1</sup>

	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 results of the regression model in Table 4.6 were represented in the regression equation:

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

These findings reveal that when all other factors are constant, a unit increase in idealized influence would increase staff retention by 16.8%, while inspirational motivation would increase it by 4.1%, intellectual stimulation by 17.3%, and individualized consideration by 27.8% among microfinance institutions in Nairobi City County. Since 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 significance level, and only inspirational motivation was not significant at the 0.05 significance level ( $p=0.657>0.05$ ), it was deduced that the model was fit for predicting staff retention.

Hypothesis two investigated the mediating effect of psychological empowerment on the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi City County, Kenya. The hypothesis stated that psychological empowerment has no significant mediating effect on the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi City County, Kenya. The four steps suggested by Baron and Kenny (1986) and illustrated in figure 4.1 were used to test the mediation as follows.

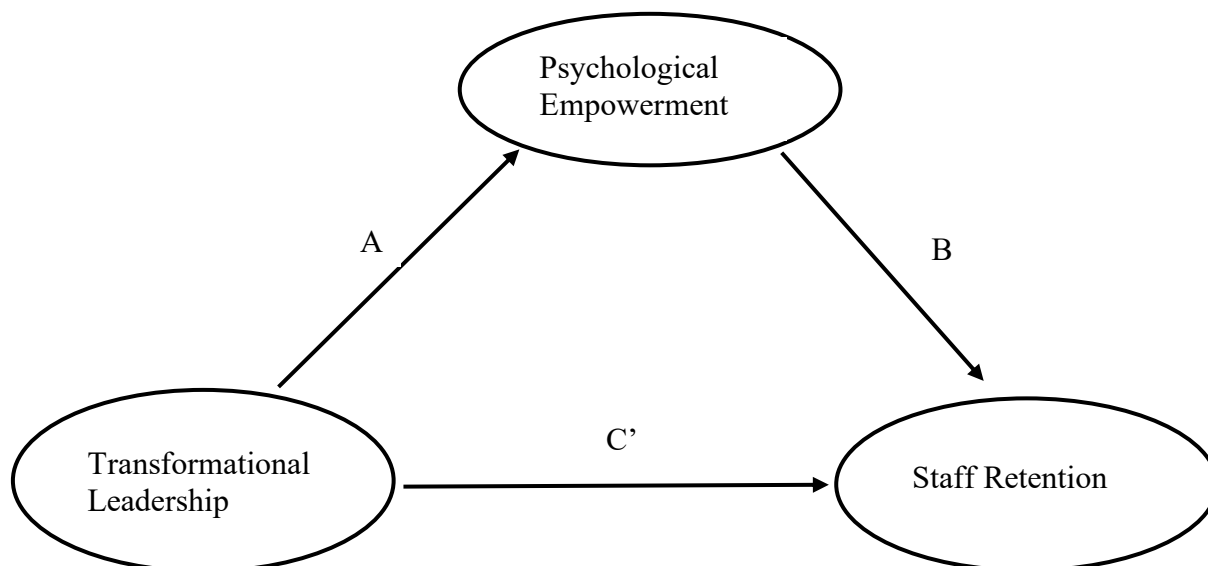


Figure 4.1: Mediation of psychological empowerment on the effect of transformational leadership on staff retention

Step 1: Relationship between transformational leadership and staff retention

Step 1, denoted as C' in Figure 4.1, estimated the relationship between transformational leadership and staff retention using linear regression model. The results were summarized in Table 4.7

Table 4.7: Model Summary for step one of Mediation Testing

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.851 <sup>a</sup>	0.723	0.722	0.26506

The results in Table 4.7 shows a correlation coefficient of 0.851 which indicates a strong positive correlation between transformational leadership and staff retention. The adjusted R Square ( $R^2$ ) of 0.722 implied that transformational leadership predicted 72.2% of the variation in staff retention among the MFIs studied. The remaining 27.8% of the variation in staff retention was explained by other factors than transformational leadership. Table 4.8 summarizes the ANOVA results for testing the fitness of the model.

Table 4.8: ANOVA results for Step One of Mediation Testing

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	38.231	1	38.231	544.176	0.000 <sup>b</sup>
Residual	14.613	208	0.070		
Total	52.844	209			

Since the F statistic for the model (544.176) was greater than the F critical value (3.887), and the P-value ( $p = 0.000$ ) was lower than the significance level of 0.05, the model was found to be a good fit to predict staff retention in microfinance institutions in Nairobi City County.

The study further tested the significance of the beta coefficients for transformational leadership and results were as summarised in Table 4.9.

Table 4.9: Table of Regression Coefficients<sup>a 2</sup>

	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
(Constant)	1.440	.238		6.059	.000
Transformational Leadership	.500	.056	.526	8.917	.000

The simple linear regression equation in Table 4.9 becomes:

$$SR = 1.44 + 0.526TL + \epsilon$$

The results indicate that if all other factors were held constant, a unit change in transformational leadership leads to a change in staff retention by 0.526. The significance level for transformational leadership coefficient was  $0.000 < 0.05$  meaning the variable was significant. The null hypothesis that transformational leadership has no significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya was rejected, concluding that transformational leadership has a significant effect on staff retention in microfinance institutions in Nairobi City County, Kenya.

These results confirm the findings obtained by Almas et al. (2020) who found a positive significant effect of transformational leadership on volunteer's intention to stay in the organization. Similarly, the study by Sharanya and Himabindu (2017) found a significant positive relationship between transformational leadership and employee retention.

#### Step 2: Psychological empowerment and transformational leadership

In this step, denoted as A in Figure 4.1, psychological empowerment was regressed on transformational leadership through in order to establish the amount of change in psychological empowerment due to transformational leadership. Table 4.10 summarizes the results.

Table 4.10: Model summary in Step Two of Mediation Testing

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.761 <sup>a</sup>	0.579	0.577	0.41528

Table 4.10 shows that the correlation coefficient was 0.761, which indicates a strong positive correlation between psychological empowerment and transformational leadership. The adjusted R-squared value 0.577 informs that 57.7% of all change in psychological empowerment was predicted by transformational leadership while 42.3% was predicted by other variables. The ANOVA results are summarized in Table 4.11.

Table 4.11: ANOVA of Step Two of Mediation Testing

	Sum of Squares	df	Mean Square	F	Sig.
Regression	49.324	1	49.324	286.000	0.000 <sup>b</sup>
Residual	35.872	208	0.172		
Total	85.196	209			

From Table 4.11, the regression model used in step two of mediation testing was found to be significant ( $F=286.000 > 3.887$ ,  $P=000 < 0.05$ ). The beta coefficients and significance level were computed as shown in Table 4.12.

Table 4.12: Table of Regression Coefficients<sup>a</sup> 3

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.549	.312		4.967	.000
Transformational Leadership	.574	.074	.476	7.811	.000

The regression equation from the regression results becomes:

$$PE = 1.549 + 0.476TL + \epsilon$$

The results show a standardized beta coefficient of 0.476 for transformational leadership, which implies that if all other factors were held constant, a unit increase in transformational leadership would result to a 0.476 increase in psychological empowerment among microfinance institutions in Nairobi City County, Kenya. The P-value for transformational leadership was found to be 0.000, which was less than the significance level of 0.05. The study

concludes that transformational leadership was significant. The null hypothesis that transformational leadership has no significant effect on psychological empowerment in microfinance institutions in Nairobi City County, Kenya was rejected, concluding that transformational leadership has a significant effect on psychological empowerment in microfinance institutions in Nairobi City County, Kenya. The results were consistent with the findings by Saira et al. (2021) who found a strong relationship between transformational leadership and psychological empowerment.

### Step 3: Staff retention and psychological empowerment

In this step, denoted as B in Figure 4.1, staff retention was regressed on psychological empowerment in order to establish the amount of change in staff retention accounted for by psychological empowerment. Table 4.13 is a summary of the regression model.

Table 4.13: Model Summary of Step Three of Mediation Testing

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467 <sup>a</sup>	.218	.214	.44583

The Adjusted R-squared value of 0.214 implies that 21.4% of variation in staff retention was explained by psychological empowerment. The ANOVA results were established and presented in Table 4.14.

Table 4.14: ANOVA results of Step Three of Mediation Testing

	Sum of Squares	df	Mean Square	F	Sig.
Regression	11.501	1	11.501	57.863	.000 <sup>b</sup>
Residual	41.343	208	.199		
Total	52.844	209			

From Table 4.14, it can be deduced that the model used in testing for mediation in this study was statistically significant ( $F=57.863$ ,  $p<0.05$ ).

Table 4.15: Table of Regression Coefficients<sup>a</sup> 4

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.084	.194		10.742	.000
Psychological Empowerment	.367	.048	.467	7.607	.000

The regression equation for staff retention regressed on psychological empowerment is as follows:

$$SR = 2.084 + 0.467PE + \varepsilon$$

This implies that a unit change in psychological empowerment yields a 46.7% increase in staff retention.

From Table 4.15, the p-value for psychological empowerment was 0.000 which means it was significant. It can therefore be concluded that psychological empowerment has a significant effect on staff retention, and this confirms the finding by Owan et al. (2020) who established a significant effect of psychological empowerment on organizational commitment.

### Step 4: Staff retention regressed on transformational leadership and psychological empowerment

In step 4, staff retention was regressed against transformational leadership and psychological empowerment to establish the significance of this indirect relationship. Table 4.16 presents the model summary.

Table 4.16: Model Summary of Step 4 of Mediation Testing

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.580 <sup>a</sup>	.337	.331	.41143

From Table 4.16, the adjusted R Square ( $R^2$ ) value was 0.331, which signifies that 33.1% change in staff retention was explained by transformational leadership and psychological empowerment. The ANOVA results are presented in Table 4.17.

Table 4.17: ANOVA Results for Step 4 of Mediation Testing

	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.804	2	8.902	52.590	.000 <sup>b</sup>
Residual	35.040	207	.169		
Total	52.844	209			

Table 4.17 shows that the regression model used in step 4 of mediation testing was statistically significant ( $F=52.590$ ,  $p<0.05$ ). The beta coefficients and significance level are presented in Table 4.18.

Table 4.18: Beta Coefficients and Significance of Step 4 of Mediation Testing

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.099	.241		4.555	.000
Transformational Leadership	.373	.061	.393	6.102	.000
Psychological Empowerment	.220	.051	.279	4.342	.000

The equation when staff retention is regressed on both transformational leadership and psychological empowerment becomes:

$$SR = 1.099 + 0.393TL + 0.279PE + \varepsilon$$

Since the p-values of transformational leadership ( $p=0.000$ ) and psychological empowerment ( $p=0.000$ ) were all less than 0.05 ( $p<0.05$ ), the study rejected hypothesis  $H_02$  and deduced that psychological empowerment has significant partial mediating effect on the relationship between transformational leadership and staff retention. A similar study by Saira et al. (2021) found a partial mediation of psychological empowerment on the effect of transformational leadership on turnover intention.

## 5. Discussions and Implications for Theory

The study rejected the null hypothesis that transformational leadership has no significant effect on staff retention in microfinance institutions in Nairobi City County in Kenya. It therefore concluded that the transformational leadership has a significant effect on staff retention among microfinance institutions in Nairobi City County in Kenya. The demographic characteristics showed that majority of the respondents were middle-aged and therefore the leadership endeavoured to retain young staff, had at least a bachelor's degree implying that they were able to comprehend the phenomenon being investigated, and were within the lower-level management staff thus provided unbiased information regarding the leadership in their institutions. Further, descriptive statistics informed that transformational leadership was positively correlated with staff retention, while the theoretical underpinning of the study was supported by the study's results which showed that transformational leaders are capable of influencing their staff to develop positive attitudes to stay in their institutions. Finally, the results were consistent with the existing literature that show that transformational leadership has a positive significant effect on staff's intention to stay in their current institutions. These aspects lead to the conclusion that the results of the study are generalizable to the general population and different contexts.

The second hypothesis was that psychological empowerment has no significant mediating effect on the relationship between transformational leadership and staff retention in microfinance institutions in Nairobi City County, Kenya. The results showed that psychological empowerment has significant partial mediating effect on

the relationship between transformational leadership and staff retention, leading to the rejection of the hypothesis. The results supported the tenets of the Social Exchange Theory that followers who perceive their leaders as supportive reciprocate the good behaviours by committing to stay in their organizations. The results are also consistent with previous studies that showed that transformational leadership has a significant positive effect on psychological empowerment, which in turn cultivates positive attitudes such as satisfaction and desire to stay in their institutions. These observations render the results generalizable to other contexts and studies.

## 6. Conclusions and Recommendations

The study concluded that transformational leadership was emphasized in MFIs in the Nairobi City County, Kenya. Notably, a leader cannot to a large extent influence staff to remain in their institutions without developing in them a feeling of psychological empowerment, deducing from the findings that psychological empowerment partially mediates the relationship between transformational leadership and staff retention. Psychological empowerment creates a conducive environment where staff create meaning out of their work, become self-determined, feel competent and consider their job as impactful in the organization thus increasing their desire to remain in the organization.

The study recommends that policy makers at the Central Bank of Kenya and the MFIs in Nairobi City County should align transformational leadership practices with the strategies designed to retain their desired staff. Further, since the study found that psychological empowerment had a significant partial mediating effect on the relationship between transformational leadership and staff retention, it recommends that the management of MFIs should make every effort to ensure their employees understand the meaning of their job to them, emphasise on the need for them to be competent, show them the significance of their job to the organization and cultivate self-determination in them.

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