

LEADERSHIP BEHAVIORS AND ORGANIZATIONAL PERFORMANCE OF  
SMALL FARMER AGRICULTURAL COOPERATIVES LIMITED: EFFECT OF  
GENDER

A Research dissertation submitted to  
Kathmandu University School of Management  
in partial fulfillment of the requirement for the  
Degree of Master of Philosophy (MPhil) in Management

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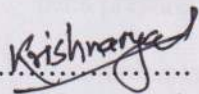
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## DECLARATION

I hereby declare that this dissertation entitled *Leadership Behaviors and Organizational Performance of SFACLs: Effects of Gender* embodies the result of an original research work I carried out in partial fulfillment of the requirements for the degree of Master of Philosophy (MPhil) in Management of the Kathmandu University and that this dissertation has not been submitted for candidature for any other degree.

  
.....  
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## RECOMMENDATION

This is to certify that Krishna Aryal has completed his research work on *Leadership behaviors and organizational performance of SFACLS: Effects of gender*. His dissertation embodies the results of his investigation conducted during the period he worked as an MPhil candidate of the School of Management. The dissertation is of the standard expected of a candidate for the degree of MPhil in Management and has been prepared in the prescribed format of the School of Management. This dissertation is forwarded for evaluation.

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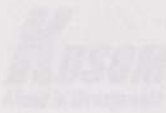
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## APPROVAL

We have conducted the viva-voce examination of the dissertation *Leadership Behaviors and Organizational Performance of Small Farmer Agricultural Cooperatives Limited: Effect of Gender* by Krishna Aryal and found the dissertation to be original work of the candidate and written according to the prescribed format of the School of Management. We approve the dissertation as the partial fulfillment of the requirements for the degree of Master of Philosophy (MPhil) in Management.

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May, 2018

## ABSTRACT

The research investigates the role of leadership behavior in predicting organizational performance. Leadership behavior was examined using transformational and transactional leadership. Moderating effects of gender on the relationships between leadership behavior and organizational performance is also explored. Primary data was collected from 256 SFACLs using the questionnaire previously used by (Xiaoxia, Xiaoxia, & Jing, 2006) and secondary data was collected from SFDB. Descriptive statistics were reported, followed by reliability analysis, confirmatory factor analysis, and hypotheses testing were carried out using linear regression model.

Results of the study suggest that leaders of SFACLs practice both forms of leadership behavior; however, transformational leadership had significantly explained organizational performance. The findings are consistent with the findings of previous researchers. This study finds that gender moderates the relationship between transformational leadership behavior and organizational performance. This is in line with previous findings that females tend to show more transformational and males show more transactional leadership behavior. The outcome of the study contributes to the existing pool of knowledge on the relationship between leadership behaviors, organizational performance and gender.

*Key Words:* transactional leadership behavior, transformational leadership behavior, organizational performance, gender, and small farmer agricultural cooperatives limited

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## ABBREVIATIONS

ADBBL	Agricultural Development Bank Ltd
ADB	Asian Development Bank/Manila
CGAP	Consultative Groups to Assist Poor
GTZ	German Technical Cooperation
IGs	Inter Groups
MFI	Micro Finance Institutions
SFACL	Small Farmer Agricultural Cooperatives Limited
SFDB	Small Farmer Development Bank Ltd (also known as Sana Kisan Bikas Bank Ltd)
VDC	Village Development Committee

## CHAPTER I

### INTRODUCTION

Scholars have long been investigating the impact of leadership on organizational performance, particularly from the beginning of 1980's (Iscan, Ersari, & Naktiyok, 2014). According to Karamat (2013), organizational performance means the transformation of input into the output for achieving certain outcome. Performance informs about the relation between minimal and effective cost (economy), effective cost and realized output (efficiency), and outputs and outcome (effectiveness) (Zulkiffi & Perera, 2011).

Measurement of organizational performance is widely practiced for assessing organizational success. Performance is usually measured by calculating the values of qualitative and quantitative performance indicators like profit, cost, and the number of clients served. It is quite important for an organization to determine the measurement indicators as they reflect the progress against the set target (Karamat, 2013). Researchers are still struggling to identify universally accepted indicators of measuring organizational performance, be it for multinationals or grass root level organization such as cooperatives (Simkhada, 2017).

Even today it is not easy to define leadership behavior, and given the complexity of the subject, there is no general consensus about delimitation of the field of analysis (Ahmad, 2014). Leadership is related to the purpose associated with the attempt to define it and so presents a wide range of possibilities. It can be seen as a group process, an attribute of personality, the art of inducing compliance, an exercise of influence, a particular type of action or behavior, a form of persuasion, a power

relationship, an instrument to achieve goals, the result of an interaction, a differentiated role or initiation of a structure (Bass, 2000). Of the various forms of leadership behavior, transformational and transactional behaviors are most widely studied leadership behaviors, an area of interest to the researchers in recent days (Bass & Bass, 2008). Researchers have suggested that leaders motivate and help their employees to be competitive by using effective leadership behaviors. Therefore, a leader uses effective leadership behaviors to promote standards of excellence in the professional development of the members of the organization.

Leadership behavior was found to be affected by the gender of the leader (Wang, Chiang, Tsai, Lin, & Chen, 2013). Eagly (2013) found that there are sex-related differences presented in the leadership style that influence the performance of an organization. She is of the opinion that female leaders on average are more democratic and participative, whereas male leaders adopt a top-down command and control behavior. She further states that female leaders are not generally more interactive than male managers; this tendency has emerged to some extent in less male-dominated roles, where the tendency for women to be more participative than men strengthened as well. Thus, it appears that women adopt more transformational leadership behaviors while men incline more towards transactional leadership behavior (Wirth, 2000; Miao & Kim, 2009).

Organizations are classified into different categories based on their performance. Of the different categories, cooperatives and Microfinance organizations (MFIs) are categorized in to grass root level organization. Such organizations are a voluntary association of people who come together to realize individual needs through a jointly owned and democratically controlled business unit. As in other types of organizations, measurement of performance in cooperatives and MFIs are done based

on either perceived performance or on actual performance approach. Actual performance measurement approach is based on historical data while perceived performance is related to the perception of the respondents.

Perceived information is taken when there is no access to data. When the historical data are readily available, perceived information is not taken into consideration. There are different measurement tools to measure the actual performance of an organization. Of those, CAMELS, SPIDER, PEARLS are widely accepted tools to measure the organizational performance of cooperatives and MFIs (Simkhada, 2017). The purpose of these tools is to evaluate the strengths and vulnerabilities of financial systems and to provide guidelines for timely corrective measures. There are non-financial performance measures of performance also. Thus, according to Simkhada (2017) in partnership with regional credit unions, the World Council of Credit Unions (WOCCU) had developed PEARLS monitoring system in the late 1980s. PEARLS contains 44 quantitative and financial indicators that measure the performance of cooperatives. Although the PEARLS ratios are widely used to assess performance for credit unions/financial cooperatives, it lacks some important ratios to assess the performance of financial cooperatives.

Rosenberg (2009) has proposed five key indicators to evaluate the organizational performance of MFI and cooperatives. They are outreach (breadth and depth), portfolio quality, profitability, and efficiency (Rosenberg, 2009). These indicators are more relevant to cooperatives than other measurement tools for its simplicity and focused to cooperatives and MFIs.

Of the various categories of cooperatives established in Nepal, Small Farmer Agricultural Cooperatives Limited (SFACL) has evolved through the action research for a period of nine years initiated by German Technical Cooperation (GTZ). SFACLs

approach is a three-tier organization model. At the bottom of the pyramid there are groups, at the middle (ward level) there are inter-group mechanisms, and at the top (VDC level) there is a Board of Directors (Pokhrel & Dhungana, 2014). Chairman is the leader of the SFACL. The effectiveness and future direction of the SFACL are guided by the leaders' ability and vision. Hence leadership behavior guides the performance of SFACL. Small Farmer Development Bank (SFDB) provides technical support and loan fund to SFACLs, besides creating new SFACLs through a process called replication. New SFACL is established in the area where there is no SFACLs previously established. While replicating new SFACL, gender discrimination is followed by the SFDB, i.e., providing membership to the women only. This has increased the number of women participation in SFACLs and in leadership positions, at the cost of male deprivation from joining the SFACL.

Even though cooperatives are recognized as an important agent of growth in developing countries like Nepal, their contribution to GDP is still minimal. The statistics published by Department of Cooperatives (2015) shows that cooperatives contribute only 10% in overall GDP of the country. Due to geographical condition of the country and slow expansion of modern technologies such as the internet in the rural areas, there is ample scope of cooperatives to provide access to finance in Nepal. Due to this fact, there is mushrooming growth of cooperatives in recent time. The number of cooperatives has reached 33,000 throughout the country, however almost half of them are not performing efficiently (Department of Cooperatives, 2016).

SFACLs, on the other hand, are agriculture cooperatives and have a significant role in the rural area to transform the traditional agricultural toward modern and sustainable agriculture (Pokhrel & Dhungana, 2014). The Government of Nepal and donor agencies are supporting SFDB to strengthen the SFACL model due to its

agriculture and rural base. To achieve the aforementioned goal, leaders' behavior is important as it is related to the organizational performance. If SFACLs are to grow and to increase their contribution in access to finance, the leaders will have to be able to identify the need for rejuvenation, to improve their sense of direction, to be prepared to create necessary changes within their organization and, most importantly, to improve organizational performance (Simkhada, 2017). In the opinion of Hasim, Ahamed, and Zarkaia (2012), organizations to sustain growth and profitability, effective leaders are needed to create the context that encourages employees to take on new challenges and achieve outstanding business results.

The performance of SFACLs is better than other agricultural cooperatives (Pokhrel & Dhungana, 2014). However, the performance of SFACLs is also mixed—some are performing very well while others are still struggling when they are evaluated based on CGAP's evaluation criterion. When analyzed the leaders of SFACLs from the gender perspective, the performance of women-led SFACLs are better off than their counterpart (SFDB, 2016). But the women led SFACLs are young in comparison to that of male-led SFACLs. Therefore, it is worth to analyze the leadership behavior of leaders of SFACLs from gender perspectives with respect to organizational performance.

### **Statement of the Problem**

The performance of cooperatives in Nepal is not satisfactory. Some cooperatives are performing very well, while others are struggling for sustainability. 63% (SFDB, 2016) of SFACLs affiliated with SFDB show satisfactory performance when they are evaluated by indicators recommended by Rosenberg (2009) for measurement of organizational performance. Since SFACLs are cooperatives based in rural areas and they collect savings from the poor people, even small amount of

money lost by them will have adverse impact to the shareholders. Therefore, the performance of SFACL will have direct impact on the livelihood of its members. Any lagging in a SFACL will have an adverse effect on other SFACLs of the country. To add further, if SFACLs does not perform well then, they will not be able to borrow from SFDB, meaning constraint to meet borrowers' demand that can affect the sustainability of the SFACLs. Hence, there is little or no room for the underperformance of SFACLs. Women-led SFACLs has better performance than that of male-led SFACLs. The data shows that women only SFACLs have higher outreach, better portfolio quality, more percentage of coverage and higher portfolio quality (SFDB, 2016).

Literature supports that leadership behavior has a direct impact on organizational performance (Ling, Lubatkin, Simsek, & Veiga, 2008). Literature also suggests that gender has a relationship with performance and leadership behavior (e.g. Eagly, Johannesen-Schimidt, & Van Engen, 2003; Foels, Driskell, Mullen, & Salas, 2000; Smith, Caputi, & Crittenden, 2012; Eagly, 2013) which is observed in SFACLs also. However, there was no literature found that studied the relationship between organizational performance, leadership behavior, and gender together. Further, research on small entities such as cooperative and MFI have been very limited (Grachev & Bobina, 2006). The study related with SFACLs is further limited.

Regardless of where the organization is located and what it does, there is no denying that leadership plays an important role in the success of any organization. Researchers (e.g. Lusthaus, Adrien, Anderson, Carden, & Montalván, 2002; Bolden, 2007) have suggested that the success of a small business clearly relies on the leader's innovative ideas and their strong aspirations for business success. When it comes to identifying leader behavior, gender plays an important role. Gender was found to be

either a full moderator or partial moderator in the previous studies (for example, O'Leonard, 2009; DeRue & Workman, 2012). Literature supports the use of gender as moderator with various constructs. But the relationship between gender, organizational performance, and leadership behavior was not found in literature.

In Nepali context, very few studies have been carried out assessing the role of leadership behavior impacting organizational performance and the effect of gender. Hence this study tries to investigate the effect of leadership behavior on organizational performance of SFACLs while examining the moderating role of gender.

The basic research issue this study address is:

In what way leadership behaviors affect the organizational performance of SFACLs, and how does gender of leaders moderate this relationship?

### **Objectives of the Study**

The main objective of the study is to analyze the influence of gender-based leadership behavior on organizational performance of SFACLs.

The specific objectives of the study are:

- a. To examine the extent and direction of the effect of transactional and transformational leadership behaviors on organizational performance of SFACLs.
- b. To test the moderating effect of gender on the relationship between transformational and transactional leadership behaviors and organizational performance of SFACLs.

### **Significance of Study**

The present study contributes to the existing body of knowledge about the effect of leadership behaviors and gender on organizational performance in the

context of Nepali cooperative organizations, about which there is limited empirical evidence available.

The outcomes of this study will benefit SFDB, government and other agencies that promote cooperatives in the rural areas of Nepal. The benefits can be taken on the strategy development towards the selection of leaders based on their behavior and gender. Further, findings will also help in the development of training and capacity development activities to strengthen the leadership behavior and enhance organizational performances to SFACLs in particular and cooperatives of Nepal in general.

### **Organization of the Report**

This dissertation is divided into five chapters. Chapter I explains the problem statement, objective of the research, significance of the study and organization of the report. Chapter II reviews the literature on each of variables in this study: leadership behavior, organizational performance, gender, and SFACLs. Chapter III explains research methodology that directs the study. Detailed descriptions of the research design, sample population, research instruments, data analysis, validity and reliability, testing of hypothesis and analysis are the key features of this chapter. Chapter IV discusses the analysis and findings of the study. Discussion on leadership behavior and gender as a moderator are part of this Chapter. The final chapter of this report, Chapter V, includes the conclusion, its implication, limitations and directions for future research.

## CHAPTER II

### REVIEW OF LITERATURE

This chapter reviews literature related to the main variables of the study. Leadership behavior with focus on transformational and transactional leadership behavior, organizational performance, and gender are reviewed in this chapter. Based on the review of literature, theoretical framework of the study has been formulated.

#### **Leadership Behavior**

The literature on leadership suggests a wide range of leadership theories and numerous definitions. However, it lacks universally accepted definition (Bass & Bass, 2008). Leadership is defined as a relationship between two or more individuals of a group that often involves on structuring or restructuring of the situation and the perceptions and expectations of the members (Bass, 2000).

Leadership definition is guided by different theories. The Great Man Theory is the oldest and was popular in 19<sup>th</sup> and early 20<sup>th</sup> centuries that assume leaders are born and not made (Yukl & Fleet, 1992). The Trait theory assumes that people inherit certain traits and qualities that distinguish them as a great leader (Bass & Bass, 2008). Behavioral theories, on the other hand, argued that leadership can be learned and leader can be developed rather than just having inborn personal characteristics (Ayman, Korabik, & Morris, 2009).

Inability to prove that individual characteristics are the main determinant for effective leadership caused a shift towards a behavioral approach to leadership, with an emphasis on leadership style or behavior. The idea that unique characteristics made

people effective leaders was no longer considered applicable in every situation (Ahmad, 2014).

Behavioral theories which were proposed from the late 1940s to the mid-1960s argued that leadership can be learned and leaders can be developed rather than just having inborn personal characteristics (Ayman, Korabik, & Morris, 2009). A behavioral definition of leadership focuses on the view that leaders are responsible for providing and shaping an environment which enables followers to achieve specific tasks (Ahmed, 2014). He further added that, for a subordinate to fulfil organizational goals, the leader can manage his or her behavior through organizing antecedents and consequences of behavior.

Instead of concentrating on what leaders are, this behavioral approach focus on what leaders do to make them great leaders and 'the relationship of behavior to managerial effectiveness (Yulk & Fleet, 1992). In the behavioral approach, the effectiveness of a leader is related either to the nature of managerial work (task orientation), or to the functions, practices and behavior of the leader (people orientation) (Bass, Jung Avolio, & Berson, 2003). These two broadly defined behavioral sets also appear in categories such as and production-centered behavior (task orientation) and employee-centered behavior (people orientation) (Judge, Piccolo, & Illies, 2004).

Task-oriented leadership behavior emphasizes giving employees specific tasks, clarifying their roles and duties , and maximizing their job performance capacity. People-oriented leadership behavior concentrates on showing mutual trust and respect, making people feel part of the team, building and sustaining effective interpersonal relationships, and showing concern for employees' needs and welfare (Zulkiffi & Perera, 2011). Research has shown that organizations with task-oriented

leaders have high job performance, but it is usually related to low job satisfaction accompanied by high absenteeism and a high turnover rate. Organizations with a people-oriented leader have high job satisfaction, low absenteeism and a low turnover rate. There are several popular behavioral theories on leadership such as the Ohio State Studies, the University Michigan Studies and the Managerial Grid (Bass & Bass, 2008). To sum up these studies, the effectiveness of the leaders depends on their style or behavior. In some circumstances, it has been proved that task orientation is more effective than people orientation, especially when the leader is dealing with new employees (Ahmad, 2014). He is further of opinion that, regardless of the styles used by leaders, those styles can be secluded, defined and taught, which is contrary to the underlying assumption of the traits theory.

During the 1960s and 1970s, a new perspective of leadership began to emerge. In this view, style of leadership alone was seen as inconclusive in explaining the factors influencing organizational effectiveness. The disadvantage of the behavioral approach was considered to be a lack of consideration of the situational influences that might affect leadership effectiveness (Ahmad, 2014).

Therefore some researchers began to assume that a situation creates conditions suitable for leaders' efficiency. This is known as the contingency approach. According to (Yulk & Fleet, 1992), the situational approach stresses the importance of contextual factors such as the leader's authority and discretion, the nature of the work performed by the leader's unit, the attributes of followers and the nature of the external environment. This means that the efficiency of a leader depends on how well he or she sees their leadership behavior to different situational factors.

Some models have received greater attention than others due to their ability to distinguish the situational variables that influence leadership effectiveness. These

models include the Fiedler Model, Hersey and Blanchard's Situational Leadership Theory, the Leader Participation Model, the Path Goal Model and Leadership Substitutes (Yulk & Fleet, 19992). Ahmed (2014) found that many leaders prefer situational leadership to other leadership models as it is more applicable to the organizational context. The foundation of situational leadership theories lies in the interaction between the extent of leader task behavior, leader relationship behavior and follower readiness in performing a certain task. In this theory, the followers are the most important factor in the leadership circumstances. As the level of the followers varies, so does the style of supervision by the leader.

The situational contingency approach has had a huge impact on the study of leadership (Ahmad, 2014). However, the approach has raised some concerns about the complexity of the models and their validity (Yukl & Fleet, 1992). The approach has also been criticized for treating leadership as a one-way process, with too much emphasis and responsibility on the leader. This would create a situation, particularly with the path- goal theory (Bass & Bass, 2008) where employees become overly dependent on their leader in order to complete their task.

All these theories lack unanimously acceptable explanation on leadership behavior. One of the most studied theories of leadership in recent years is the transformational and transactional leadership behavior theory developed by Bass (Ahmad, 2014). The concept of transformational leadership was first developed by Burns in 1978 to deal with political leadership. Since then, the concept of transformational leadership has been the focus discussion and debate in leadership and management literature (Avolio, Bass, & Jung, 1999). However, it was Bass who had made this theory popular (Ahmad, 2014). According to Bass (1997), transactional

leaders are those who intend to influence their followers' self-interests emphasizing task assignments, work standards and compliance by followers.

According to Bass (2000), transformational leadership behavior inspires followers to work towards common goals and to achieve a higher level of self-actualization through instilling a clear mission and vision and building up trust and confidence.

Bass refined transactional and transformational leadership by two distinct modifications on Burns initial concept of transformational leadership. Firstly, Bass disagree with Burns proposition that transformational and transactional leadership are two separate concepts, representing the opposite ends of a continuum (Martin, 2015). These two types of leadership behavior were not two separate concepts but rather two dimensions of a single concept. This means that effective leaders can possess both transformational and transactional leadership attributes (Bass & Bass, 2008). Secondly, Bass expanded the types of behavior that represented transformational and transactional leadership (Judge, Colbert, & Ilies, 2004).

Attempts have been made to analyze the effects of transformational leadership theory on various measures of organizational performance in different industry settings. These attempts have included analyzing the effects on the performance of large corporations (Ensley, Pearce, & Hmieleski, 2006), and financial institutions and banks (Xenikou & Simosi, 2006). All of these studies have highlighted the importance and applicability of transformational leadership theory in various contexts and organizational settings around the world.

Bass and Bass (2008) state that transformational leadership behavior is the process whereby a person engages with others and creates a connection that raises the level of motivation and morality in both the leader and followers. He further states

that this type of leader is attentive to the needs and motives of followers and tries to help followers reach their full potential. Thus, according to Bass (2000), a leader having transformational leadership behavior can motivate followers to achieve performance beyond expectations. Rowold (2005) observed that transformational leaders are able to influence followers to put in extra effort due to their commitment to the leader, their intrinsic work motivation, the level of their development, or having a clear sense of purpose or mission that drives them to excel beyond a standard performance and they also develop followers to take on leadership roles. Bass and Bass (2008) described transformational leaders as not afraid to change the status quo by informing followers about the problems in the current system and providing a compelling vision of what a better organization could be. There are four factors of transformational leadership behavior: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration (as cited by Ketten & Bergh, 2007). Leaders provide idealized influence, vision and a sense of mission, instills pride, and receives respect and trust in employees, transformational leadership behavior inspires and excites employees with the idea that they are able to accomplish great things by putting in extra effort (Rowold, 2005); take stands and also appeal to employees on an emotional level (Judge & Piccolo, 2004). Inspirational motivation refers to the degree to which leaders articulate a vision that is appealing and inspiring to employees (Ketten & Bergh, 2007). Inspirational leaders challenge employees to reach high standards, communicate optimism about the attainment of goals, and provide meaning for the tasks at hand (Judge & Piccolo, 2004; Rowold, 2005; Muenjohn, 2008; Martin, 2015; Bass & Bass, 2008). Through intellectual stimulation the leader encourages intelligence, rationality and careful problem solving of subordinates (Bass & Bass, 2008). This attribute also refers to the degree to which the

leader challenges assumptions, takes chances, and solicits employees' views and opinions. Leaders with this attribute stimulate and encourage creativity in their employees (Judge & Piccolo, 2004; Rowold, 2005). Finally, the individualized consideration aspect of transformational leadership means leader provides personal attention to employees and treat each of them individually (Judge & Piccolo, 2004; Muenjohn, 2008; Bass & Bass, 2008).

As cited in Ahmad (2014), transactional leadership behavior, on the other hand, can be described as the process of creating clear expectations on the part of followers with agreement on what they will get in return for meeting these expectations. He further states that there are two factors of transactional leadership: contingent reward, and management-by-exception.

Contingent reward is the exchange of rewards for efforts. It promises rewards for excellent performance, acknowledges accomplishments and punishes poor performance (Muenjohn, 2008; Bass & Bass, 2000; Judge & Piccolo, 2004). Management-by-Exception ideally means no leadership behavior. It is referred to the leadership behavior that involves criticism, negative feedback, and negative reinforcement (Bass & Bass, 2008; Aytug, 2010).

Despite its wide acceptance, transformational and transactional leadership behaviors have been criticized on the following grounds. Yukl and Fleet (1992) criticized the theory on the ground that the underlying mechanism of leader influence at work in transformational leadership was unclear and that little empirical work existed examining the effect of transformational leadership on work groups, teams, or organizations. The overlap between the constructs of idealized influence and inspirational motivation is not clear. Gundersen, Hellesoy, and Raeder (2012) found that transformational leadership and leadership effectiveness in teams facing dynamic

work environments is not effective. Additionally, a number of scholars criticize transactional leadership theory because it utilizes the one-size-fits-all universal approach to leadership theory construction that disregards situational and contextual factors related organizational challenges (Yukl & Fleet, 1992).

### **Transformational and Transactional Leadership Behaviors**

Leadership studies have been conducted in various organizational settings and environments. The literature review has identified that attempts have been made to evaluate the effect of leadership on followers' development and engagement (Avolio Gardner, 2005), on organizational culture and a firm's innovativeness (Duygulu & Ozeren, 2009), on increasing employee satisfaction, and on improving employees motivation (Papalexandris & Galanaki, 2008), on examining the distribution of leadership in a group or examining team performance (Bligh, Pears, & Kohles, 2006).

Attempts have been made to analyze the effects of transformational leadership behavior on various measures of organizational performance in different industrial settings. These attempts have included analyzing the effects on the performance of large corporations (Agle, Nagarajan, Sonnenfeld, & Srinivasan, 2006; Ensley et al., 2006), financial institutions and banks (Xenikou & Simosi, 2006), the education sector (Paracha, Qamar, Mirza, Hassan, & Waqas, 2012), the hotel industry (Chian & Wang, 2012) and also on the performance of SMEs in developing countries (Lo, Ramayah, & Mai, 2009). All these studies have highlighted the importance and applicability of transformational leadership theory in various contexts and organizational settings around the world.

Xenikou and Simosi (2006) analyzed the effect of transformational leadership behavior on organizational effectiveness and revealed that transformational leadership and organizational performance had a positive effect on subordinates' level of

motivation. Chong (2008) found that both transformational and transactional leadership behaviors were important for top managers in SWCFs. The author concluded that pastors with transformational leadership qualities are involved more frequently in social-political activities. Most of these studies have suggested that transformational leadership results in better organizational outcomes. Leaders who display transformational leadership qualities are able to engage employees, gauge their interest and motivation and improve their team commitments, all of these translate into better performance (Chen, et al., 2010). However, there is a situation where transactional leadership might be more relevant and effective when work requires constant monitoring, transactional leadership becomes more important.

An important issue that needs to be discussed with regard to the transformational–transactional leadership theory is the universality of the theory for different organizational contexts and different cultures. Bass (1997) concluded that there is universality in the transformational–transactional leadership paradigm and presented cross-continental supportive evidence collected from organizations in business, education, military, government, and independent sector. There were similar correlations between the different types of leadership behavior and particular outcomes in different countries. He asserted that the operation of the theory and its relationships can be observed in many types of organizations and cultures, but there might be some exceptions as a consequence of unusual attributes and different beliefs. The concepts may have certain thought processes, beliefs, implicit understanding or behavior that might be perceived differently in different cultures.

To sum up, transformational and transactional leadership behavior is commonly used leadership theory by researchers in the most recent times (Lo et al.,

2009; Judge & Piccolo 2004) and has been proved to have impacts on the performance of organizations (Mat, 2008).

### **Organizational Performance**

Organizational performance may be defined as the transformation of inputs into outputs for achieving certain outcomes. Organizational performance is the most important dependent variable for researchers concerned with almost all areas of management (Richard, Devinney, Yip, & Johnson, 2008). It explains how well an organization is doing (Okwu, Obiwuru, Akpa, & Nwankwere, 2011), the ability of an enterprise to achieve objectives (Ho, 2008). With regard to its content performance informs about the relation between minimal and effective cost, and between effective cost and realized output (Ahmed, 2014). According to Lusthaus et al. (2002) analysis of organizational performance is an important step in ensuring organizational success, but there is little agreement as to what constitutes a valid set of criteria for measuring organizational performance due to the complexity of the construct. Even though literature in organizational research shows that organizational performance has been used extensively as a dependent variable and that many studies concentrated on identifying the factors that affect the variability in performance outcomes, it is still an indistinct and loosely defined variable (Richard et al., 2008). There is no individual performance measure category as commonly accepted, the best proxy for overall performance measurement (Carton, 2004). He further found organizational performance can be categorized into five broad criterion: accounting measures (relying on financial information); operational measures (include non-financial variables such as market share and customer satisfaction); market-based measures (ratios of the market value of the organization such as return to shareholders and

market value-added); survival measures (long-term organizational performance); and economic value measures (adjusted accounting measures).

Accounting measures could be further sub-categorized into profitability measures, growth measures, leverage, liquidity and cash flow measures, and efficiency measures (Carton, 2004). Each category of measures has its strengths and weaknesses in assessing overall organizational performance. (Schriesheim, Castro, Zhou, & Dechurch, 2006) had found that measurement of organizational performance is a source of constant debate and criticism, lack universally accepted measuring norms. Martin (2015) criticized the selection of organizational performance measures in most existing leadership-performance researches on the ground that common-method bias such as central tendency, social desirability, and halo effects not taken into consideration. Several studies have used non-self-report based organizational outcomes, such as net profit margin (for example (Flanigan, Stewardson, Dew, FleigPalmer, & Reeve, 2013; Waldman, Ramirez, House, & Puranam, 2001) business unit sales, and percentage of goals met (Hoogh, Hartog, Koopman, Berg, Berg, Weide, & Wilderom, 2004 ). While reducing common source and common method bias, these measures of organizational performance have been criticized for being overly narrow thus suffering from criterion deficiency. In the opinion of Hoogh et al. (2004) situation is even more complicated because the relationship between leadership behavior and organizational outcome measures is often quite indirect. They have concluded that measures of organizational performance are heavily dependent upon environmental constraints and may reflect forces outside the control of the leader, thus suffering from criterion contamination. Measurement criterion of organizational performance depends upon which approach is followed. These

approaches are goal approach, system resource approach, consistency approach, and competing values approach.

Performance measurement of Microfinance/cooperatives is complicated due to lack of generally accepted standard and lack of proper record-keeping. Hence, what measurement is appropriate to them is not clear. In the given context, Consultative Group to Assist poor (CGAP) – an organization focused on microfinance sector around the world – have proposed performance measurement guide to the microfinance. CGAP has proposed five key indicators to measure the organizational performance of grass-root level organizations. These criteria are – Outreach: Breadth, Outreach: Depth, Loan repayment, Financial sustainability, and Efficiency.

- i. Outreach: Breadth - Performance of cooperatives depends on how many members it serves. The higher the member it serves the lower will be the cost of operation and better will be the organizational performance. Hence, breadth has significant an impact on the organizational performance (Rosenberg, 2009). To reflect actual service delivery, membership-based organizations should report on active clients.
- ii. Outreach: Depth- Many, though not all, microfinance projects have poverty reduction as an explicit objective, and are thus expected to reach poor clients. For such projects, there are various techniques for measuring client poverty levels, some quite expensive and others simpler, but as yet there is no widespread agreement on any one of them. If the project does not use a more sophisticated indicator, it should at a minimum report the following very rough proxy for the poverty level of loan or savings clients at a point in time (Rosenberg, 2009).
- iii. Portfolio Quality- This is the most revealing of the five performance areas. A retail lender's ability to collect loans is critical for its success, if the delinquency is not kept to very low level, it can quickly spin out of control. Furthermore, loan

collection has proved to be a strong proxy for general management competence (Rosenberg, 2009). Long experience with microfinance/cooperatives has shown that very few successful MFIs have bad repayment, and very few unsuccessful MFIs have good repayment.

- iv. **Financial Sustainability-** In the long run, few retail providers can maintain and expand the financial services they offer unless they can cover all of their costs and generate the net income (Rosenberg, 2009). Financial sustainability either tell whether MFI/Cooperative is meeting its goal or else to present transparently the level of subsidy that is being invested for a particular result.
- v. **Efficiency:** Last but not the least, the indicators that reflect how efficiently an MFI/Cooperative is using its resources, particularly its assets and personnel can be used as efficiency indicator. MFIs use different efficiency and productivity indicators, tailoring them to reflect their own organizational structure, product lines, and monitoring priorities. In calculating these indicators, MFIs need to select which denominator they will use (Rosenberg, 2009).

SFACLs are cooperatives established under Cooperative Act 1992 of Nepal. These cooperatives also inherent similar characteristics, (outreach expansion, poverty reduction, financial sustainability) as that of cooperative and MFIs around the world. Therefore, the evaluation criteria as proposed by Rosenberg (2009) are relevant in the context of SFACLs also.

### **Measuring Organizational Performance of SFACL**

After discussion with experts in the area of microfinance and SFACLs, and staffs of SFDB, following criterion is developed to transform the ratio into numeric form so that the comparison of the different level of data (for example, number, percentage, currencies) can be made uniform for analysis.

Table 1

*Indicator for Organizational Performance of SFACLs*

<b>Indicator</b>	<b>Score</b>
<b>1. Breath (higher the better)</b>	
No of Members up to 400	1
No of Members between 401-700	2
No of Members between 701-1000	3
No of Members more than 1000	4
<b>2. Depth (lower the better)</b>	
Loan per borrower up to Rs. 100 thousand	4
Loan per borrower between Rs. 101-200 thousand	3
Loan per borrower between Rs. 201-300 thousand	2
Loan per borrower more than Rs. 300 thousand	1
<b>3. Portfolio Quality (lower the better)</b>	
Delinquent loan less than 5%	4
Delinquent loan between 5%-10%	3
Delinquent loan between 11%-15%	2
Delinquent loan above 15%	1
<b>4. Financial Sustainability (higher the better)</b>	
Net Profit less than Rs. 0	1
Net Profit between Rs. 1-1.5 Million	2
Net profit between Rs. 1.5 Million- 2 Million	3
Net profit above Rs. 2 Million	4
<b>5. Efficiency (higher the better)</b>	
No of Borrower per staff up to 50	1
No of Borrower per staff between 51-100	2
No of Borrower per staff between 101-200	3
No of Borrower per staff more than 200	4

### **Relationship between Leadership Behaviors and Organizational Performance**

Leadership has been identified as a key factor that drives the success of an organization. Evidence suggests that inadequate leadership and poor management skills are primary factors contributing to the failure of small organizations like cooperatives (Dahal, 2013). It is acknowledged that an organization requires good leader to maintain the operation and guide the enterprise towards success. An appropriate leadership behavior demonstrated by the leader is an important ingredient for sound organizational performance and to prevent organizational failures (Flanigan et al., 2013).

Habidin and Yusof (2013) conducted a study on the critical success factors for implementing lean production in small organizations like cooperatives. One of the main findings was that strong leadership is essential for the successful organizational performance.

To conclude, leadership behavior contributes to organizational performance, as found in various researches around the different part of the globe. Further, the importance of leader's behavior grows when the organization is small (for example SFACL) and has a significant impact on profitability due to the small decision also.

### **Gender**

Gender relates to a biological category and refers to visible differences. The term refers to male and female or the corresponding terms for gender are masculine and feminine. Various theories explain gender and leadership behavior. Some of them related to leadership behavior and organizational performance have been reviewed in the following section.

Social categorization theory- This theory considers that gender discrimination in leadership behavior lies in the society where the leaders work. Discrimination on

the basis of categories such as race and gender could not occur if actors did not routinely categorize one another on these dimensions (Xiaoxia, Xiaoxia, & Jing, 2006). Status characteristics theory- According to this theory, in many settings the categorizations actors make of themselves and others result in patterns of unequal power, prestige, and influence in the interaction (Ahmed, 2014). Glass Ceiling Theory- Glass Ceiling is a phenomenon that has been studied for years, concerning impenetrable and invisible barriers which prevent females from attaining higher managerial positions. The theory indicates different reasons for females in organizations and society that want to climb higher in position, even when they are qualified and have competent that is required (Wirth, 2000). He further analyzed that, the barriers are described as invisible and exist at different levels, which are presented in a pyramidal shape. Gender Stereotypes- There are cases where individual process a developing view of other qualities, characteristics or proper of receiving the information (Miao & Kim, 2009). Some stereotypical role traps that are common for women are:

- Mother Role (comfortable and caring)
- The Seductress (Sexy and dangerous)
- The Pet (Sweet but incompetent)
- Iron Maiden (genderless and vociferous)

In different cultures, women tend to be stereotyped, which creates boundaries in organizations, when they become highly visible (Ahamad, 2014). Role Congruity Theory- This theory emphasizes the concept that females in leadership continue to be stereotypically judged based on prejudiced attributes of soft, nurturing, and mothering characteristics which are considered communal traits. Role congruity

theory is similar to social role theory in that it deals with the conception of gender roles and behavior styles of leadership (Shackelford, Wood, & Worchel, 1996).

### **Relationship between Leadership Behavior, Organizational Performance, and Gender**

Recognizing the importance of leadership to an individual, work-group, and organizational success, a great deal of attention and resources in organizations are devoted to leadership development. Yet, research and theory in this area continue to be criticized for lack of conceptual clarity and theorizing that fails to capture the true experience of leader development (DeRue & Workman, 2012).

Leadership research taking an interpersonal lens (also referred to as the "attitudinal" perspective) considers how others perceptions and attitudes shape women's leadership advancement and success in leadership roles. Drawing most heavily from theory and literature on stereotypes, this work demonstrates that men and women alike still associate effective leadership with predominantly male characteristics and that traditional gender stereotypes continue to impact evaluations of women leaders (e.g. Garcia-Retamero & Lopez-Zafra, 2006; Johnson, Murphy, Zewdie, & Reichard, 2008). Most of the existing literature on women leadership generalizes women's experiences, behaviors, and attitudes as leaders in order to compare them to men. For example, a wealth of research compares men and women as leaders, considering similarities and differences in areas such as leadership styles, leadership effectiveness, and leadership emergence in small groups (Eagly et al., 2003). More recently, a body of work lauding the "female leadership advantage" argues that women may lead in ways that are more effective in today's organizations because women leaders tend to exhibit the hallmarks of a transformational leadership style more so than men (Eagly et al., 2003).

A number of researchers have proposed various mechanisms that would imply a positive relationship between workforce diversity and firm performance. Moreover, gender diversity has attracted the attention of researchers, politicians, and corporate executives around the world, especially on the question of how female representation in firms affects organizational and firm performance (Nakagawa, 2015).

The resource-based view of the firm suggests a positive gender diversity-performance relationship, whereas social identity theory suggests a negative gender diversity-performance relationship (Barney & Mackey, 2005). The body of literature on gender diversity sends a confusing message to practitioners on whether it is good for businesses or not. The mixed evidence suggests the value of focusing on competing predictions considering the effect of context on the diversity-performance relationship (Jackson, Joshi, & Erhardt, 2003). Competing predictions are useful when prior knowledge leads to two or more reasonable explanations. Recent empirical studies indicate that gender structure affects the behavior and attitude of members of an organization and therefore indirectly influences the level of satisfaction and mobility of the organization. For instance, in an organization with a high percentage of females, female members tend to influence each other in terms of beliefs and attitudes (Eagly & Carli, 2003), better organizational performances (Boldry, Wood, & Kashy, 2001).

Gender as moderator was used in previous studies and found in support and against the moderation. Literature that supports gender as moderator shows that gender has a positive effect on organizational performance (for example, Miao & Kim, 2009; Kolyesnikova, Dodd, & Wilcox, 2009; Makhubela & Debusho, 2013; Wang et al., 2013). Similarly, literature also found that gender does not moderate the relationship (such as Chen et al., 2010; Ishak, Jdaitawi, Ibrahim, & Mustafa, 2011).

Also, gender was found to be partial moderator (Robledo, Arán, Martin-Sanchez, & Molina, 2015).

### **Small Farmer Agricultural Cooperative Limited (SFACL)**

Small Farmer Agricultural cooperatives had emerged after the transformation of Small farmer development program into cooperatives. They were registered under the Cooperative Act 1992, and were designed as fully member managed community-based cooperative institutions for microfinance with three-tiered organizational structure (i) Small Farmer Groups (SFG), at the grass-root level (5-12 members) ; (ii) Inter-groups (IGs) at the ward level (having two or more SFGs) to supervise and coordinate activities of SFGs); and (iii) Main Committee (MC) as a Board of Directors (BoDs) at the VDC level (Pokhrel & Dhungana, 2014).

The number of SFACL has reached to 550 by the end of fiscal year 2015/016. This growth in the number of SFACLs was due to the adoption of the farmer to farmer replication program of SFACLs. Under the program, a new SFACL is created by the matured SFACL and handed over to the community within a period of a year. The replica SFACL is expected to function as the mother SFACL does and provide its services to the members. While forming new SFACLs gender-based discrimination (preferring to women only) strategy is adopted. The objective of gender discrimination was to increase women participation at member level and at leadership positions (Pokhrel & Dhungana, 2014).

Sana Kisan Bikas Bank Limited (SKBBL) {also known as Small Farmer Development Bank (SFDB) in English) was established in the year 2001 with a vision to provide wholesale credit along with the technical support services to the SFACLs and similar other MFIs. The Bank largely owned by SFACLs. The Bank is incorporated as class 'D' microfinance wholesale bank under the Company Act 1996

and is licensed by Nepal Rastra Bank (NRB) under Bank and Financial Institutions Act (BAFIA) 2006 (Pokhrel & Dhungana, 2014). The farmer to farmer replication of SFACL is carried out by SFDB.

### **Theoretical Framework**

Burns in 1978 had introduced the concept of transformational and transactional leadership, which was expanded by Bass in 1985, after which this theory centers the interest among practitioners, researchers, and others. Bass established that an effective leader with transformational attributes has the ability to transport his or her organization to greater heights and to achieve greater performance (Bass, 2008); whereas, a transactional leader is described as providing contingent rewards and negative feedback.

An organization is regarded as a system. Hence measurement of organizational performance can be based on system theory. A systems theory is a theoretical perspective that analyzes a phenomenon seen as a whole and not as simply the sum of elementary parts. A distinctive characteristic of systems theories is that it developed simultaneously across various disciplines and that scholars working from a systems theory perspective build on the knowledge and concepts developed within other disciplines (Irene, Roger, & Nick, 2009).

Based on the review of the literature, the theoretical framework of this study is presented in the following figures, and then the variables in the framework are defined.

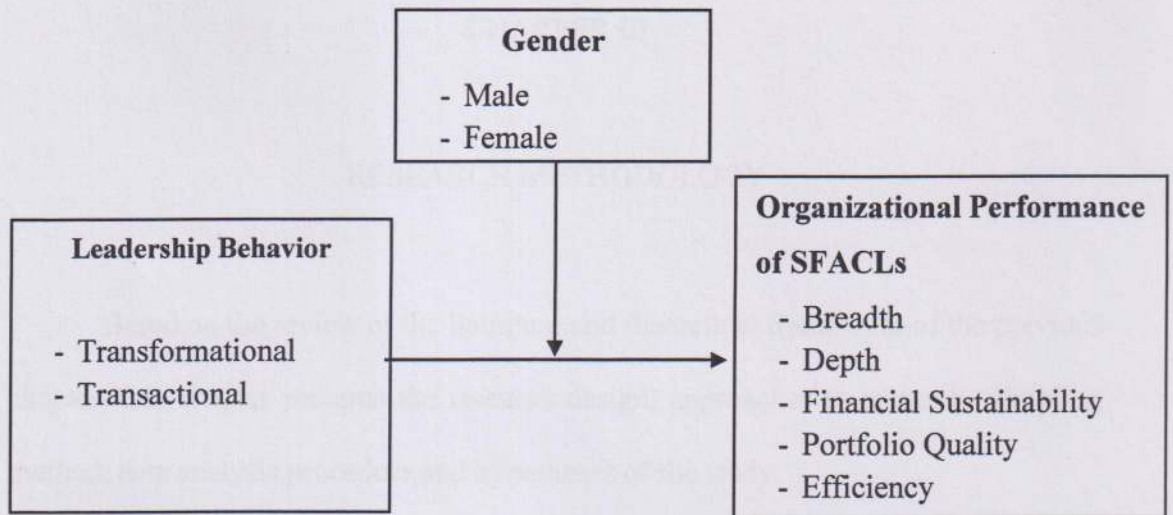


Figure 1. Theoretical framework of research

## CHAPTER III

### RESEARCH METHODOLOGY

Based on the review of the literature and theoretical framework of the previous chapter, this chapter presents the research design, approaches to research, sampling method, data analysis procedure and hypotheses of the study.

#### **Research Design**

Research design primarily means a framework for collecting, organizing, interpreting and reporting the data in a research. It represents different models of conducting research for distinct means and procedures in the field of social science research. This study employs mixed methods research. Quantitative methods research. In quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. Quantitative research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon This study adopts the sequential explanatory design. In this research design, the researcher collects and analyses the quantitative data and then the qualitative data in two consecutive stages. This approach was selected to provide a broad and in-depth understanding of the relationships between the variables in this study.

Before collecting data, this research began with an extensive review of the literature in the areas of leadership, organizational performance, and gender. The literature review facilitated the development of the conceptual model and the formulation of the research objectives, research questions, and hypotheses. Then the

final constructs to be included in the model were operationalized and the research instruments were developed. The final process was the identification of sampling frames to be used in data collection.

The second stage of the research design was the pilot test and quantitative data collection and analysis. Pilot testing was conducted to ensure the clarity and accuracy of the translated questionnaire and to obtain feedback on its format, design, clarity, understanding and the ease and time for completion. Necessary modifications were made to refine the survey questionnaire for use in the data collection stage. The administration of questionnaires involved the distribution of survey questionnaires to potential respondents. After obtaining the required number of responses based on the population of this study, data analysis was preceded by data entry and data cleaning, followed by the test of hypotheses. Linear regression analysis was conducted to examine the proposed relationships.

Creswell (2014) mentioned that quantitative approaches to scientific inquiry generally rely on testing theoretical propositions. The quantitative research method is suggested when the research is designed to investigate causal relationships between underlying variables (Neuman, 2014). Furthermore, these authors suggested that the statistical results from quantitative research show the directions of relationships and can be used to verify hypotheses. Therefore, in order to answer the research questions in this study and to test the proposed hypotheses, the quantitative approach to data collection and analysis seemed to be the most appropriate method.

The final stage involved the interpretation and reporting of findings obtained from data collection. The results are presented in next chapters.

## Research Approach

When the researcher is interested in describing or explaining the important variables associated with an issue, this is referred to as a correlational study (Sekaran, 2003). A correlational study involves minimal interference by the researcher with the normal flow of work and is conducted in a natural setting. Since this study was carried outside the natural environment where work proceeds normally, it is referred to as non-contrived setting. The correlational studies conducted in organizations are classified as field study (Sekaran, 2003).

The unit of analysis is at the organizational level since the concern of this study is to examine whether the performance of an organization is influenced by leadership behavior and gender or not? The SFACLs affiliated with SFDB are the target population of this study. Wiklund (1999) claimed that the strategic orientation of the chief executive officer is likely to represent the strategic orientation of the firm. The chairperson involves in the day-to-day activities and have an influential role in the strategic orientation of SFACL, hence s/he is likely to represent the strategic orientation of the organization and hence is selected as respondents of this study.

Finally, in this study cross-sectional time horizon is adopted, as Sekaran (2003) suggested that in a cross-sectional study data are gathered just once. The selection of cross-sectional survey was based on the recommendation of previous researchers (Ahamad, 2014) due to its less expensive and less time consuming than a longitudinal method.

### Research Hypotheses

Five hypotheses are developed for this study, which are based on the relationships between the variables as found in the literature. First two hypotheses are related to transactional and transformational leadership behavior while remaining two hypotheses are related to gender as the moderator between leadership behavior and organizational performance of SFACLs.

H<sub>1</sub>: Transformational leadership behavior is significantly and positively related to organizational performance.

H<sub>2</sub>: Transactional leadership behavior significantly and positively affects organizational performance of SFACLs.

H<sub>3</sub>: Transformational leadership behavior improves organizational performance of SFACLs than the transactional leadership behavior.

H<sub>4</sub>: Gender moderates the relationship between transformational leadership behavior and organizational performance of SFACLs.

H<sub>5</sub>: Gender moderates the relationship between transactional leadership behavior and organizational performance of SFACLs.

### The Model of Research

In order to test the hypothesis, linear regression equation is developed. The model is given below

$$y = a + b_1 T_x L + b_2 T_s L + b_3 T_x L G + b_4 T_s L G + e \dots \dots \dots (1)$$

Where,

y = Organizational performance of SFACLs

a = Constant

b<sub>1</sub>, b<sub>2</sub>, b<sub>3</sub> and b<sub>4</sub> = regression coefficients

TxL= Transactional leadership behavior

TsL= Transformational leadership behavior

TxLG= Interaction term of transactional leadership behavior and gender

TsL= Interaction term of transformational leadership behavior and gender

e = error term

### **Operationalization of the Variables**

In this study, leadership behavior is defined as transformational and transactional leadership behavior. Transformational leadership behavior is characterized by intellectual stimulation, idealized influence, inspirational motivation, individualized consideration, and risk acceptance. Transactional leadership behavior is defined as contingent rewards and management by exception. Similarly, organizational performance is defined as outreach breadth, outreach depth, financial sustainability, portfolio quality, and staffs efficiency of SFACLs. The gender is defined as male and female.

### **Scope of the Research**

Based on the proposed research framework, the following factors define the scope of the research:

- (a) This framework forecast transformational and transactional leadership behavior at the construct level. The factor-level relationships of other variables are not observed. This means that this study does not separately examine the effects of the five types of behaviors that represent transformational leadership or the two types of behaviors that represent transactional leadership.
- (b) This framework only forecasts organizational performance of SFACLs at the construct level. The factor-level relationships of other variables are not observed. This means that this study does not separately examine the effects of the five

parameters of organizational performance that represent organizational performance. and

- (c) This framework takes into consideration gender as a moderator. Other variables such as geographical location of SFACL, the age of SFACLs etc., have not been taken into consideration.

### Population and Sampling

#### Population

There were 511 SFACLs affiliated to SFDB as on July 2016. The number of SFACLs by branch (Area) office of the Bank is given in the following table. These 511 SFACLs consist of the population of this study.

Table 2

*Number of SFACLs Affiliated to SFDB- Branch Office*

#	Name of Branch Office	No of SFACL	#	Name of Branch Office	No of SFACL
1	Birtamod, Jhapa	48	6	Nepalgunj, Banke	96
2	Ithari, Sunsari	38	7	Attariya, Dhangadi	28
3	Janakpur, Dhanusa	77	8	Pokhara, Kaski	43
4	Hetauda, Makawanpur	54	9	Gajuri, Dhading	53
5	Butwal, Rupandehi	59	10	Kathmandu, Kathmandu	15

(Source, SFDB 2016)

#### Sampling

According to Sekaran (2003), sampling involves the process of selecting sufficient number of the target population so that generalization can be made to the whole population. The manner in which samples are taken influences the accuracy of the survey results and their generality.

Selection of respondents, according to (Lyon, Lumpkin, & Dess, 2000), rely on the size of the firm and the respondents' familiarity with the research topic and the information sought. More explicitly, the views of a respondent when he or she is the

chairman or top manager are likely to represent those of the firm. In addition, according to (Isobe, Makino, & Montgomery, 2004) small and medium organizations tend to have a relatively limited number of core products and technology and therefore the chairman or managers are likely to have a clear understanding of their business operation, consequently enhancing the accuracy of their responses.

As chairperson involves in the decision making due to the small size of SFACLs, they have an influence on day-to-day operation also. Hence the chairperson was selected as the respondents of this study.

### **Sampling Frame**

A sampling frame is a representation of the elements of the population. Sekaran (2003) defined a sampling frame as a physical representation of all elements in the population from which the sample is drawn. This physical representative could be a company database, random-digit dialing or a membership roster. It consists of a list or set of directions for identifying the target population. For this study, the list of SFACLs affiliated with SFDB was the sampling frame. The information on the name of the SFACLs, districts, the name of the branch office of SFDB where the SFACL has transactions, the geographical division (Terai, Hill or Mountain), and gender of respondents were obtained from the SFDB. This information consists of the sampling frame for this study.

### **Sampling Design**

Of the various probability sampling techniques, this study follows stratified sampling technique. Stratified sampling is a method that involves the division of the population into smaller groups known as strata. In stratified sampling, the strata are formed based on members shared attributes or characteristics (Sekaran, 2003). In this study, the strata are formed based on the branch office where the SFACL had its

operation. Altogether eight strata were formed to collect data. Within the strata, random sampling method was adopted.

### Sample Size

To ensure a proper sample size, Krejcie and Morgan, (1970) has developed a model to determine the sample size needed for the population. They have proposed a simple formula to determine sample size for the finite and infinite population. The formula for sample size determination, as proposed by Krejcie and Morgan for the finite population is:

$$S = \frac{X^2 NP (1-P)}{d^2 (N-1) + X^2 P (1-P)}$$

Where,

S = Required Sample size

X = Z value (e.g. 1.96 for 95% confidence level)

N = Population Size

P = Population proportion

d = Degree of accuracy

The Recent recommendation suggests a critical sample size of 200 or above to provide sufficient statistical power for data analysis and to obtain reliable results (Hair, Black, Babin, Anderson, & Tatham, 2009). Gilmore, Carson, Grant, O'Donnell, & Laney, (2009) strongly suggested avoiding small sample size of less than 200 for better prediction and generalization. Based on the formula proposed by Krejcie and Morgan (1970), and the recommendations of previous researchers sample size for this study was found out to be two hundred and fifty-six which is sufficient for statistical power for data analysis and reliability.

### Sampling Procedures

Primary data were collected from eight strata's where SFDB had organized two-day residential progress review and strategy formulation workshop. The questionnaire was distributed to the chairman of SFACLs on the first day of the workshop and was collected on the following day. The following Table summarizes the respondents of each stratum.

Table 3  
*Number of Respondents under Each Strata*

#	Strata	No of Respondents	#	Strata	No of Respondents
1	Janakpur, Dhanusa	39	5	Attariya, Dhangadi	14
2	Hetauda, Makawanpur	41	6	Pokhara, Kaski	22
3	Butwal, Rupandehi	43	7	Gajuri, Dhading	27
4	Nepalgunj, Banke	48	8	Kathmandu, Kathmandu	22
Total Sample Size					256

Secondary data were collected from the unpublished source of SFDB to interpret organizational performance. Respondents of SFACLs were matched with the secondary data for reliability. Primary data was on the Likert scale of 1-7, while the secondary data were in form of ratio, number, and currencies. Therefore, comparison and interpretation would not give meaningful results. Hence, a composite scale was developed by using the secondary data. This transformation of data was done after taking advice from the experts in the field of microfinance and SFACLs.

### Questionnaire for Data Collection

There were 21 questions concerning leadership styles in the questionnaire. This part of the questionnaire was based on a modified version of the Multi-Factor Leadership Questionnaire (MLQ) developed by Bass (1997). The MLQ is a well-known instrument used to measure perceived frequency of transformational and

transactional leadership behavior. It has been used in many studies. It was designed to collect information about a manager's leadership style from multiple sources: the manager herself/himself; the manager's subordinates, the manager's superiors, and the managers' peers.

The questionnaires were not delivered to their subordinates or superiors in this research because of practical consideration. In most SFACLs, the number of staff is limited hence rating by staffs may not be available. But it must be kept in mind that a chairman's perceived leadership style may be different from actual leadership style as respondent might tend to rate themselves as more competent than others rate them.

As for their research Xiaoxia et al. (2006) had modified the MLQ. The reason for modification was, on the one hand, due to the difficulty to find the whole copy of MLQ because it is a license-imposed patent. On the other hand, the English language in the questions is somewhat obscure. In order to make sure that respondents can fully understand the questions, the questionnaire was translated into local Nepali language. The original MLQ- a five-point rating scale from 1 to 5, which was changed to seven point range from one to seven. The reason was that to reduce the possibility of choosing neutral answers by respondents. Besides, the seven-point is much easier to examine and analyze different choices leading to different results. The number 1-7 stands for scores, by which the participant can show the extent of his agreement to all the statements. 1 point stands for totally disagree. On the contrary, 7 points are the highest score of the answer which means totally agree.

In the questionnaire, the transformational leadership behavior consists of five dimensions, including 15 questions. Each dimension is followed by three questions. The five dimensions include Idealized Influence, Inspirational Motivation, Intellectual Stimulation, Individualized Consideration, and Risk Acceptance. Transactional

leadership behavior consists of two dimensions (Contingent rewards and Management by exception), including six questions.

The specific questions are “I make others feel good to work with me (Idealized Influence)”, “I encourage employees to make the most of their real skills and capacities to their jobs (Inspirational Motivation)”, “I provide others with new ways of looking at puzzling things (Intellectual Stimulation)”, “I give personal attention to others who seem rejected (Individualized Consideration)”, and “I think making risky decisions alone does not bother me (Risk Acceptance)”. Similarly, questions related to transactional leadership behavior includes: “I tell others what to do if they want to be rewarded for their work (Contingent Rewards)”, and “As long as things are working, I do not try to change anything (MBE)”.

#### **Validation of Questionnaire**

To strengthen the content validity of the survey instruments, a pre-test was conducted prior to the pilot survey. This was done by observing the degree of relevance of each variable item and receiving feedback from an expert to confirm the acceptability of proposed items and questions from a practical perspective. Items which were found to be misleading or confusing were modified. A pilot test was then conducted with 20 respondents with the Nepali questionnaire to ensure the clarity and accuracy of the translated questionnaire and also to monitor the time needed to complete the survey. The respondents of pre-test were not the respondents of the main survey, to increase validity of the questionnaire. Convenient sampling method was chosen to select the respondents of pilot testing. The Cronbach's Alpha score of pilot tested the questionnaires were above 0.70. Therefore, convergent validity of the instrument was established.

## **Data Analysis**

Data were analyzed using PASW 21 and Amos 21. PASW 21 (was formally referred to as Statistical Package for Social Science or SPSS) was used for preliminary analysis of data and hypothesis testing.

### **Confirmatory Factor Analysis**

CFA allows the researcher to test the hypothesis that a relationship exists between the observed variables and their principal latent construct (Suhr, 2005). Confirmatory factor analysis was carried out to test the internal consistency of the data.

### **Normality Test**

After the data were tested for internal consistency, they were tested for normality assumption. The Shapiro and Wilk test statistics was used to test the normality of the data. Log transformation and square root transformation were carried out to make the data analysis.

### **Linear Regression Analysis**

In order to test the hypothesis, linear regression equations were developed and three hypotheses were tested. The moderation effects of gender were tested using PROCESS macro in linear regression equations developed by Dr. Andrew Haynes. According to Yang (2008), a beta coefficient of linear regression is a good predictor of the relationship between dependent variable and independent variable.

## CHAPTER IV

## RESULTS

In this chapter, collected data were analyzed to test the proposed hypothesis and answer the research questions. Preliminary analysis of the data was carried out that follows reliability of the responses, and the regression analysis. Hypothesis were either accepted or rejected based on the results of regression analysis.

**Preliminary Analysis of Data**

The demographic characteristics of respondents are presented in the following table.

Table 4

*Demographic Characteristic of Respondents*

Characteristics	Number of Observation	Percentage
Region	244	100
Plain (Terai)	109	44.7
Hill	120	49.2
Mountain	15	6.1
Members (no of Followers)	244	100
<400	25	10.2
401-700	108	44.3
701-100	49	20.1
>1000	62	25.4
Gender	244	100
Female	125	51.2
Male	119	48.8

From Table 4, it was found that 44.3% of the respondents had members between 400 and 700 in their SFACs, 45.5% respondents had less than 5 years of experience, and 51% of the respondents were female.

### **Reliability Analysis**

Prior to test the hypothesis, preliminary screening of data was very essential. In this stage, the purity of data was examined so that the outcome does not violate the statistical norms. The reliability test with Cronbach's alpha of the response was carried out. To measure the reliability of the data confirmatory factor analysis was also carried out.

#### **Cronbach Alpha Coefficient**

Reliability analysis of independent variables was carried out using Cronbach's alpha coefficients. The overall alpha score of transformational leadership behavior was 0.73 and that of transactional leadership behavior was 0.61 indicating the instrument used to collect data as acceptable. The alpha score of each scale is given in Table 5. Any scale above 0.60 in behavioral science is treated as reliable for further analysis, which was met in this study.

Table 5

#### *Cronbach Alpha Scores*

Measurement Scale	Alpha Score
Transformational Leadership Behavior	0.73
Transactional Leadership Behavior	0.61
Organizational Performance	0.72

#### **Confirmatory Factor Analysis**

Confirmatory Factor analysis (CFA) enables the researcher to test how well the measured variables represent the intended constructs. CFA also allows the researcher to assess the contribution of each scale item as well as how well the scale

measures the related concept (Hair et al., 2009). The result of CFA of the study is presented in the following figure and table.

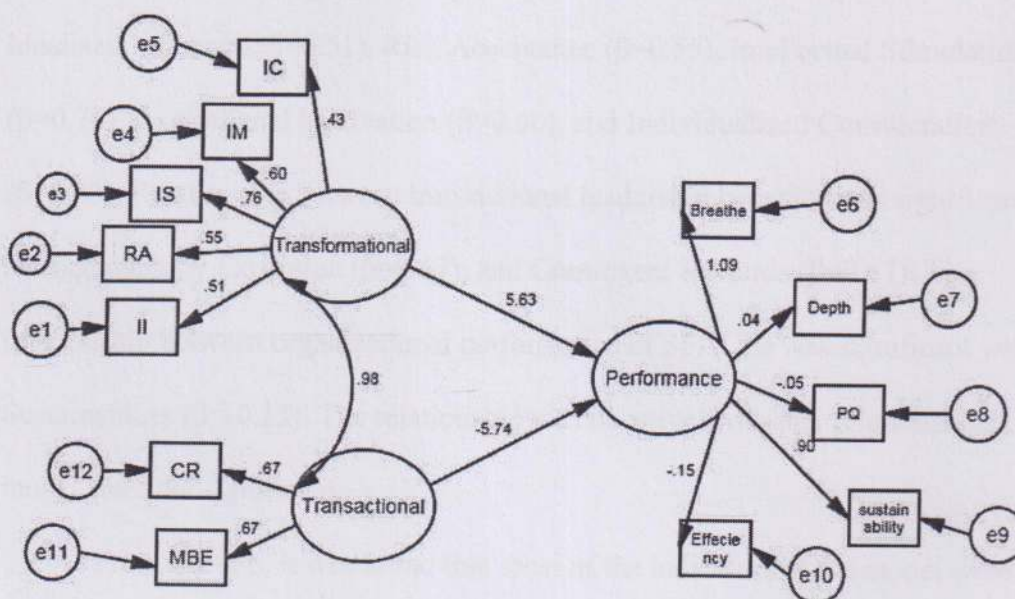


Figure 2. Confirmatory factor analysis (standardized coefficients)

The output of the above model is given in Table 6.

Table 6

*Model Fit Summary (CFA)*

Indices	Benchmark	Score
Chi-square ( $\chi^2$ ) test of goodness fit		3.08
degree of freedom (df)		52
P		0.00
Root Mean Square of Error Analysis (RMSEA)	<0.08	0.09
Goodness of Fit Indices (GFI)	>0.90	0.91
Adjusted Goodness of Fit Indices (AGFI)	>0.90	0.87
Comparative Fit Index (CFI)	>0.95	0.93

Relationship between transformational leadership behavior and organizational performance of SFACLs was significant with a standardized regression coefficient of 5.63. The relationship was positive. The relationship between transactional leadership

behavior and organizational performance of SFACLs was significant with a standardized regression coefficient of -5.74. The relationship was negative. Similarly, relationship between transformational leadership behavior was significant with Idealized Influence ( $\beta=0.51$ ), Risk Acceptance ( $\beta=0.55$ ), Intellectual Stimulation ( $\beta=0.76$ ), Inspirational Motivation ( $\beta=0.60$ ), and Individualized Consideration ( $\beta=0.43$ ). Relationship between transactional leadership behavior was significant with Management by Exception ( $\beta=0.67$ ), and Contingent Rewards ( $\beta=0.67$ ). The relationship between organizational performance of SFACLs was significant with Sustainability ( $\beta=-0.15$ ). The relationship was negative. All other relationships in the model were not significant.

From Table 6, it was found that most of the indicators of the model were above benchmark. Hence, it was concluded that the model fits well for further analysis.

### Correlation, Mean and Standard Deviation

Relationships between the measured variables were identified using Pearson's Correlation analysis. Results of correlation analysis are presented in the Table 7.

Table 7

#### *Mean, Standard Deviation and Correlation Analysis*

	Mean	S.D.	Transformational Leadership	Transactional Leadership	Organizational Performance
Transformational	6.41	0.30	1		
Transactional	6.51	0.33	0.62**	1	
Organizational Performance	3.27	0.57	-0.00	-0.19**	1
N	244				

*Note.* Mean and SD is based on 7 points Likert Scale, \*\*Correlation is significant at the 0.01 level (2-tailed), \*Correlation is significant at the 0.05 level (2-tailed).

From Table 7 it was found that the mean and standard deviation of Transactional leadership behavior ( $M=6.51$ ;  $SD= 0.33$ ) was highest followed by Transformational leadership behavior ( $M=6.41$ ,  $SD= 0.30$ ) and Organizational performance ( $M=3.27$ ;  $SD= 0.57$ ).

Transformational leadership behavior and transactional leadership behavior were strongly correlated,  $r(242) = 0.63$ ,  $p < 0.001$ . Similarly, Transformational leadership behavior was not correlated with organizational performance  $r(242) = -0.00$ ,  $p > 0.005$  and transactional leadership behavior was weakly correlated with organizational performance  $r(242) = -0.19$ ,  $p < 0.001$ , in negative direction. The mean and standard deviation of transactional and transformational leadership behavior are not significantly different hence it can be concluded that leaders of SFACLs exercise both forms of leadership behavior.

#### **Relationship between Leadership Behavior and Organizational Performance of SFACLs**

Formal testing of hypotheses 1-3 was conducted using ordinary least squares regression. Results of the regression analysis are summarized in Table 8.

Table 8

*Regression Analysis Transformational, Transactional Leadership Behavior and Organizational Performance*

Variables	B	t-Statistic	Significance
Constant	4.48	5.52	0.00
Transformational Leadership Behavior	0.37	2.43	0.02
Transactional Leadership Behavior	-0.54	-3.94	0.00
R <sup>2</sup>	0.06		
F	7.77 ( $p = 0.00$ )		

Regression analysis (Table 8) was estimated on organizational performance of SFACLs based on transformational and transactional leadership behavior. The overall

model ( $F = 7.77$ ,  $p < 0.00$ ) indicates that the model predicted only 6% of the variation in the organizational performance of SFACLs. The variance inflation factors (VIF) were less than 10. VIF for both transformational and transactional leadership behavior was 1.63 that is less than 10 and was greater than one; however no tolerance statistics were below 0.2 (0.67 for both transactional and transformational leadership behavior indicates that the model is free from multicollinearity).

From Table 8, it was found that for every level of increase in the practice of transformational leadership behavior, the performance of SFACLs increased by 0.37 level. Similarly, with every level increase in practice of transactional leadership behavior in SFACLs, the performance of the SFACLs had decreased by 0.54 level.

From Table 8 it was found that the beta coefficient of transformational leadership ( $\beta = 0.37$ ) was positive and the relationship was significant ( $p = 0.02$ ). Therefore, the first hypothesis that tests the effect of transformational leadership behavior on organizational performance of SFACLs is accepted.

The second hypothesis tests the effects of transactional leadership behavior on organizational performance of SFACLs. From the Table 8, it was also found that the coefficient of transactional leadership behavior ( $\beta = -0.54$ ) was negative and the coefficient was significant ( $p = 0.00$ ). This suggests that the relationship between the transactional leadership behavior and organizational performance of SFACLs is significant. However the direction of this relationship is negative. Hence the second hypothesis, transactional leadership behavior positively and significantly affects organizational performance of SFACLs is rejected.

The third hypothesis states that transformational leadership has a positive impact on organizational performance than transactional leadership behavior. From the Table 8 it was found that the coefficient of transformational leadership behavior

( $\beta = 0.37$ ) was positive, while the beta coefficient of transactional leadership behavior ( $\beta = -0.54$ ) was negative. Hence the third hypothesis transformational leadership behavior improves organizational performance of SFACLs than that of transactional leadership is accepted.

#### **Effect of Gender on Leadership Behavior and Organizational Performance of SFACLs**

The last two hypotheses were related with gender as the moderator. The fourth hypothesis was related with gender as moderator between transformational leadership behavior and Organizational performance of SFACLs. The output of the analysis is given in Table 9.

Table 9

*Effect of Gender as Moderator between Transformational Leadership Behavior, and Organizational Performance*

Variables	B	t-Statistic	Significance
Constant	8.61	3.52	0.00
Transformational Leadership	-0.80	-2.09	0.04
Gender	-3.62	-2.36	0.02
Transformational Leadership X Gender	0.54	2.26	0.02
R <sup>2</sup>	0.04		
F	3.09 ( $p = 0.03$ )		

The regression model with gender as moderator was estimated on organizational performance of SFACLs based on transformational leadership behavior. The variance inflation factors (VIF) of transformational leadership behavior and moderator was 1.06, which was lower than the benchmark of 10. Similarly the tolerance statistics of transformational leadership behavior and the moderator were 0.95, which were above the benchmark of 0.2. Thus the new model with gender as moderator was free from multicollinearity.

The final hypothesis was related with transactional leadership behavior, organizational performance and gender as moderator. The output of the analysis was given in Table 10.

Table 10

*Effect of Gender as Moderator between Transactional Leadership Behavior, and Organizational Performance*

Variables	B	t-Statistic	Significance
Constant	6.96	3.13	0.00
Gender	-1.15	-0.80	0.43
Transactional Leadership	-0.54	-1.58	0.11
Gender	-1.15	-2.36	0.02
Transactional Leadership X Gender	0.16	0.72	0.47
R <sup>2</sup>	0.05		
F	4.16 (p= 0.07)		

The regression model with gender as moderator was estimated on organizational performance of SFACLs based on transactional leadership behavior. From the Table 10 it was found that, the overall model  $F = 4.16$ ,  $p < 0.07$  was not significant at 5 percent level of confidence, indicating that the model does not have good predicting power. The  $R^2$  of the model was 0.04 that indicates model having predicting capacity of 4% of the variance in the organizational performance of SFACLs. From Table 9 it was found that the gender does not moderates the relationship ( $\beta = 0.16$ ,  $p < 0.47$ ). Therefore, our fifth hypothesis, gender moderates the relationship between transactional leadership behavior and organizational performance of SFACLs is rejected.

### Summary

This chapter reports the finding of data analysis and test of the hypothesis. Initially, data were analyzed for their reliability using Cronbach's alpha, and

confirmatory factor analysis. After the preliminary analysis of the data, mean, standard deviation, correlation were analyzed followed by linear regression analysis for hypothesis testing was carried out. Out of five hypotheses, three hypotheses were supported while other two hypotheses were not supported. The summary of the hypotheses tested are summarized in the following table.

Table 11

*Summary of Findings*

	Hypothesis	Results
1	Transformational leadership is significantly and positively related to organizational performance	Accepted
2	Transactional leadership is significantly and positively related to organizational performance.	Rejected
3	Transformational leadership has a greater impact on organizational performance than the transactional leadership.	Accepted
4	Gender fully moderates the relationship between transformational leadership behavior and organizational performance.	Partially Accepted
5	Gender fully moderates the relationship between transactional leadership behavior and organizational performance.	Rejected

Discussion on the findings in relation to the research questions and research objectives of this study are presented in the next chapter.

## CHAPTER V

## SUMMARY, DISCUSSION, AND IMPLICATION

Understanding the impact of leadership can be challenging for both individual and organizations. Individuals typically focus on becoming more effective leaders while organizations focus on identifying the best leader to enhance overall organizational performance. Ahmad (2014) notes that being a leader means having the ability to lead through unprecedented changes and being able to influence others. As the organization continues to seek methods to increase performance, leadership behavior is an area where the focus is given most.

Conceptually, this study was based on leadership theory and Goal Theory. The intent was to identify and explain the relationship between leadership behaviors in the form of transformational, and transactional (Bass, 2000) and the organizational performance of SFACLs. Another goal of this study was also to examine the impact of leader's gender on leadership behavior and organizational performance. The relationship was tested using quantitative data that were gathered using an instrument developed by Xiaoxia, Xiaoxia, and Jing (2006). Two hundred and fifty-eight leaders of SFACLs were the respondents of this study of which, fourteen responses were not included for data analysis purpose due to missing responses, due to content validity, or respondents other than chairperson of SFACLs. The effective response rate of this study was 95%, which is very high. Responses were tabulated and entered into PASW 21.0 software for analysis. Data related to organizational performance were collected from the unpublished source of SFDB.

Reliability of data was tested using Cronbach alpha, confirmatory factor analysis, and analysis of residuals was carried out. Simple linear regression analysis was carried out and hypothesis was concluded based on the results of the regression analysis. The output of regression analysis concludes three hypothesis as acceptable and remaining two hypothesis were rejected (see Table 12).

This study found that leaders of SFACLs practiced both forms of leadership behavior, but inclined towards transformational leadership behavior than transactional behavior. The findings are in line with the study of previous research works. This study also found that gender moderates the relationship between leadership behavior and organizational performance of SFACLs.

### **Discussion**

This section elaborates the results of the previous chapter. Based on the means distribution between the two types of leadership behavior and their respective attributes presented in Table # 7, both forms of leadership behavior had similar mean. However the standard deviation of transformational leadership behavior was lower than that of transactional leadership behavior, hence it can be concluded that transformational leadership behavior has the higher influence on the organizational performance of SFACLs. These findings are similar to the findings of most of the previous studies and confirm the propositions by Bass and Avolio (1990) and Bass, Jung, Avolio, and Berson (2003). Bass (2000) study was based on 27,285 respondents in the US. In another study of Taiwanese SMEs by Yang (2008), data from 406 respondents also reported a higher mean for transformational leadership ( $M = 3.00$ ) than the mean for transactional leadership ( $M = 2.68$ ).

The results of this study indicate that leaders of SFACLs in Nepal perceive themselves as practicing both forms of leadership behavior, but incline more to

practice transformational leadership behavior. They seem to consider themselves to be transformational when they deal with organizational problems or issues with employees. They believe that to lead an organization, they do not necessarily have to focus on finding employees mistakes or providing contingent rewards for good performance and punishing poor performance. They see themselves more frequently as focusing on developing the trust of employees to earn respect from them, providing assistance in dealing with problems or issues, giving individual attention and communicating high expectations. These are the attributes of transformational leaders. Several previous studies also reported that leaders usually rate themselves as favoring transformational rather than transactional leadership, perhaps due to the self - assessment (Muenjohn, 2008). One possible explanation for the leaders to choose transformational leadership behavior by the respondents may be due to its effectiveness in increasing followers' satisfaction. It is also becoming an ideal leadership behavior regardless of country and culture (Muenjohn, 2008). Therefore, leaders of SFACLs in Nepal perceive themselves as transformational leadership behavior than transactional leadership behavior.

Gender was found to be the partial moderator between leadership behavior and organizational performance of SFACLs. This is consistent with the previous research findings related to gender as moderator (for example, Eagly & Carli, 2003; Foels, Driskell, Mullen, & Salas, 2000; Eagly, 2013). One of the reasons of the result is due to the slightly higher representation of female in SFACLs (51%). At the categorical level female had higher influence on transformational leadership behavior ( $\beta = 0.28$ ,  $p = 0.09$ ) than that of male ( $\beta = -0.26$ ,  $p = -0.47$ ).

The findings support the female only approach adopted by SFDB while forming new SFACL. Previous findings suggest that components of transformational leadership are more female-friendly than that of the male.

### **Implications**

The outcomes of this study generate theoretical contributions and managerial implications. These contributions and implications are drawn from the conclusions as discussed in the previous sections.

#### **Theoretical Implications**

The first implication of this study comes from the framework. This framework augments the body of knowledge in existing literature in the area of leadership and organizational performance in confirming the applicability of these Western-developed concepts to a developing country like Nepal. It can be concluded that transformational leadership behavior has a higher significant effect than that of transactional leadership behavior to predict the organizational performance of SFACLs.

The second implication of this study is the development of a composite scale to determine a comparable scale of organizational performance. An average score of five dimensions of organizational performance derived from secondary data was the score of composite scale. The composite scale value was used to measure the organizational performance of SFACLs. The development of the composite scale was done after discussion with the experts in microfinance and staffs of SFDB. The composite scale developed in this study can significantly contribute to the literature on the measurement of performance for small organizations like SFACLs.

The third implication of this study relates to the transformational leadership. Bass (2000) had recommended four dimensions of transformational leadership

behavior that was expanded by Xiaoxia, Xiaoxia, and Jing, (2006), where they added risk acceptance construct to predict transformational leadership behavior, that was supported by this study. This means that transformational leadership behavior should be evaluated from the point that how much risk does the leaders take as an explanatory factor.

Last but not the least, the implication of this study is related to gender as a moderator. Even an independent link was established between leadership behavior and organizational performance (for example Ling et al., 2008; Lo et al., 2009), between gender and leadership behavior (e.g. O'Leonard, 2009; DeRue & Workman, 2012), and between organizational performance and gender (such as Nakagawa, 2015; Cox & Blake, 1991) very few studies have examined the relationships between these three variables simultaneously. Therefore, further understanding of the relationships between these variables adds new knowledge to literature.

### **Managerial Implications**

The core objective of conducting this study is to present outcomes which might be beneficial to SFACLs and other MFIs in Nepal. The findings of this study conclude that the leadership behaviors is an important variable that affects the performance. The effective display and practice of transformational leadership behavior, transactional leadership behavior, and gender are perceived to affect the outcomes of the MFI. More importantly, leaders of SFACLs are encouraged to understand the complex interaction between their leadership behavior and the level of gender inclusion since these factors are acknowledged as important elements for organizational success.

The outcomes of this study will help to fill the gap in the understanding of the leadership behavior of Nepali small business leaders, such as SFACLs. Personal

initiatives to learn and develop skills and knowledge in regard to these forms of leadership behavior may benefit them and their organizations. Results obtained from data establish the form of leadership behavior that would contribute most to the success of SFACLs. This study suggests that leaders of SFACLs practice both forms of leadership behavior, however, the magnitude of transformational leadership behavior is slightly higher than that of transactional leadership behavior. Thus, leaders of SFACLs in Nepal need to display, practice and nurture the dimensions of transformational leadership to improve the performance of their organization. The qualities associated with transformational leadership elevate the level of motivation of employees and encourage them to reach their full potential. In return, Female leaders who practice transformational leadership seem to generate and achieve better organizational performance in comparison to that of transactional leadership behavior.

The managerial implications are that, for SFACLs and other types of MFIs, the challenges for displaying and practicing good leadership behavior are threefold :

- The practice of leadership behavior must align with the level of understanding of nations MFIs level.
- Understanding which leadership behavior favors change may help organizations to gain more confidence of members and lenders, besides smooth functioning of SFACLs with minimum conflicts. These measures stimulate positive spirit and favorable work culture among all members of the organization, and
- Taking higher risks requires organizations to take bold actions so that the leader tends to avoid risk taking behavior.

Transactional leadership is associated with risk-averse behavior (Bass, 2000). Thus, organizations must develop and improve transformational leadership behavior to be more entrepreneur orientated and enhance performance. Practically, the

outcomes from this study have significant implications for the development of SFACLs in Nepal. Ministry of Cooperative and Poverty Alleviation, the governing body, SFDB who provides lending, nurturing and monitoring to SFACLs, and Nepal Agricultural Cooperative Central Federation, the umbrella organizations of agricultural cooperatives, should provide more leadership training and development programs towards the development of transformational leadership behavior to female leaders.

Specifically, leadership training course based on transformational leadership behavior should be designed and be given during the new SFACLs replication to all newly elected board of directors as the membership of these new SFACLs are limited to female only. Such training should also be given to the female leaders of existing SFACLs to change their behavior toward transformational leadership behavior.

Another practical implication for Nepali leaders is that the results of this study provide a clear indication that their perceptions are not much different from those of their counterparts in Western countries. These results should be taken as an eye-opener for Nepali leaders to believe that they are equally capable with other MFIs be they are from within the country or throughout the globe. In order to be successful, SFACLs in particulars and MFIs & cooperatives of Nepal in general, women should prioritize providing more decision role and gender-based discrimination in membership.

Another implication of the current study is related to the selection and design of succession planning in SFACLs. In those SFACLs where members are both male and female succession planning in the board of directors should consider providing female the vice chair position. This will help women to grow their capability to take

over the leadership in future. Further, this will also align with the spirit of the constitution of Nepal- encourage women participation in the leadership position.

Fourth, qualitative analysis can enrich the findings of the study. Future research with qualitative data shall provide insight on the leadership behavior of SFACLS.

Last but not the least, a practical implication of this study pertains to the relevance of this study to other Asian countries. Due to the similarity of culture and values of Nepal with its neighboring countries such as India, Pakistan Sri Lanka, Bangladesh, China, and Bhutan, this study could also benefit these countries besides the other part of the world.

### **Research Implications**

The current study can be enriched in future by incorporating the following research implications. The research implication paves the way for the future research also. What was not able to be done in this research are central of the research implications of this study. They are as follows.

First, use of multiple sources of information can enrich this study. In this study, the respondents were chairman only. Future researchers should consider taking manager and other board members as respondents.

Second, a longitudinal study would enable greater understanding of the leadership and gender representation processes as it could measure leadership effects and the gender implication at different points in time. Thus, it would provide valuable information about variations in performance as an organization moves through different stages.

Third, more variable can be introduced to understand the leadership behavior in Nepali context, for example how does culture affect the leadership behavior,

influence of informal groups within the organizations, the mediating role of other variables, to mention a few. Alanazi, Ratyana, Alharthey, and Rasli, (2013) suggested that cultural difference might influence the way people perceive their leaders. Other authors have also concluded that leadership behavior affects organizational outcomes, culture, and practices, and organizational culture and practices also affect what leaders. Ogbanna and Harris (2000) found that organizational culture and leadership are related, and the relationship between leadership and organizational performance is mediated by the organizational culture. Thus, the inclusion of culture could further explain the relationship between leadership behavior and organizational performance. Perhaps such an investigation could shed some light on the insignificant relationship between transactional leadership and performance found in this study.

Fourth, use of qualitative methods may improve the interpretation of the result, as qualitative method provides in depth investigation into phenomenon of outcomes.

Last but not the least, an examination of leadership behavior at the factor level could enhance and develop a better understanding of the factorial effects of leadership on organizational performance. A detailed study at the factor level could provide empirical findings with implications for specific leadership training to be provided for leaders of SFACLs in Nepal for better performance

### **Critique of the Study**

All research has its limitations. The ability of a study to acknowledge its limitations is part of the strength of the research undertaking (Dolen, Ruyter, & Lemmink, 2004). There are several limitations in regard to what has been compiled, analyzed, presented and discussed in this study. These limitations are identified in the following section.

Firstly, this study relied on self-reported data from single informants. All measures on leadership behavior were responded by the chairperson of SFACLS. The informants in this study may have exaggerated their evaluation of their leadership behavior, and also their organizational performance. According to a recent review of the literature, self-assessment of leadership behavior tends to be more inflated than other sources.

Secondly, information related to organizational performance was taken for one fiscal year and it is assumed that the leader has a significant impact on the outcome of the SFACL performance. However, chances are there, though due care was taken, that the respondent might have been elected at the mid of the reported year. In that case the reported performance may not be solely due to respondent leadership behavior, his/her predecessor's behavior might have a significant role. This fact has not been taken into consideration in this study.

Zulkiffi and Perera (2011) found that in the context of measuring the performance of small entity, subjective measures tend to be used since most of the small entity refuses to publicly reveal their actual financial performance and data may not fully represent an organization's actual performance, even if they are available, they may be manipulated in order to depict better performances.

Use of cross-sectional design used in this study only provides a snapshot view of the researched phenomena where data on all measures were collected at the same time. Thus, causal inferences could not be drawn from this research. The use of longitudinal data would provide a remedy for this limitation when data on independent variables and dependent variables are measured at two or more points in time.

Finally, this study provides generalizations for both cooperatives and microfinance in Nepal. It does not take into account the categorical difference between the two types of financing institutions. There are several sub-categories of cooperatives and MFIs. A more detailed study looking at each of the categories (for example saving and credit cooperatives, Agricultural cooperatives, and dairy cooperatives etc.) might provide an avenue for future research.

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## APPENDIX I

**Questionnaire (English Copy)**

Dear Sir/Madam

Namaskar,

I am a student of Kathmandu University School of Management (KUSOM). As per the requirement of the course, I am carrying out a research entitled Leadership behavior and Organizational Performance of SFACLs: Effect of Gender. In this connection I would like you to kindly fill up this questionnaire by ticking (✓) appropriate box, this will take about 15 minutes of your valuable time. Your views will be strictly used only for this study. Thank you. Krishna Aryal - MPhil (KUSOM)

1 Are you a female or a male?

Female

Male

2 In what Age Group do you belong to?

Less than 30 Years   30-39 Years   40-50 Years   More than 50 Years

3 Your experience in SFACL?

Less than 5 Years   5-10 Years   11-15 Years   more than 15 Years

4 How many members are there in your SFACL?

Less than 400   400-700   701-1000   More than 1000

Statement

**Fully disagree, Disagree   Partially disagree   Undecided   partially agree, agree, Fully agree**

5 I make others feel good to work with me

6 I encourage employees to make the most of their real skills and capacities to their jobs

7 I enable others to think about old problems in new ways.

- 8 I let others know how I think they are doing
- 9 I think making risky decisions alone does not bother me
- 10 I tell others what to do if they want to be rewarded for their work.
- 11 I am satisfied when others meet agreed-upon standards
- 12 I am content to let others continue working in the same way as always
- 13 Others are proud to be associated with me
- 14 I help others find meaning in their work
- 15 I provide others with new ways of looking at puzzling things
- 16 I give personal attention to others who seem rejected
- 17 I think intuition is the best guide in making decisions
- 18 I provide recognition/rewards when others reach their goals
- 19 As long as things are working , I do not try to change anything
- 20 Whatever others want to do is O.K. with me
- 21 I talk about my most important values and beliefs to my employees
- 22 I articulate a compelling vision for the future
- 23 I get others to rethink ideas that they had never questioned before
- 24 I give careful attention to the working conditions of my employees
- 25 I make quick decisions when necessary

## APPENDIX II

## Translated Version of Questionnaire

आदर्णिय सर/मेडम,

नमस्कार,

म काठमाण्डौ विस्वविद्यालयको एक विद्यार्थी मैले नेतृत्वको व्यवहारले साना किसान कृषि सहकारी संस्थाहरूको प्रगतीमा के भुमिका रहेकोछ र महिला/पुरुषको भुमिका के हुन्छ भन्ने विषयमा अध्ययन गर्दैछु । यसै संदर्भमा हजुरहरूको बहुमुल्य विचारको लागि अनुरोध गर्न चाहन्छु । कृपया तलका बुँदाहरूमा आफ्नो राय दिनुहोला । हजुरको राय यस अध्ययन भन्दा अन्य प्रयोजनमा प्रयोग गर्ने छैन भन्ने प्रण गर्दै हजुरले दिनुभएको महत्वपूर्ण समय प्रति आभार व्यक्त गर्न चाहन्छु ।

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१ तपाइ महिला की पुरुष हुनुहुन्छ ?

महिला

पुरुष

२ हजुर कुन उमेर समुहमा पर्नुहुन्छ ?

३० वर्ष भन्द कम

३०-३९ वर्ष

४०-५० वर्ष

५० वर्ष भन्द वडी

३ हालको सहकारी संस्थामा हजुरको अनुभव कति वर्षको रहेकोछ ?

५ वर्ष भन्द कम

५-१० वर्ष

११-१५ वर्ष

१५ वर्ष भन्द वडि

४ हजुरको सहकारी संस्थामा कति सदस्य छन् ?

४०० जना भन्द कम

४००-७०० सम्म

७००-१००० सम्म

१००० भन्द वडि

कृपया तल उल्लेख गरिएका सबै प्रश्नहरूको राय (√) लगाएर दिनुहोला ।

	मेरो विचारमा	पूर्ण		आंशिक		आंशिक		पूर्ण	
		असहमत	असहमत	असहमत	अनिर्णित	सहमत	सहमत	सहमत	सहमत
५	म संग काम गर्दा अरुले सहज महशुश गर्छन्								
६	म आफ्ना सहकर्मीहरूलाई (कर्मचारी) आफ्नो सिप र क्षमताका साथ काम गर्न प्रेरित गर्छु								
७	म पुराना सम्स्यालाई नयाँ तरिकाले सोचन अरुलाई प्रोत्साहन								

	मेरो विचारमा	पूर्ण असहमत	असहमत	आसिक असहमत	अनिर्णित	आसिक सहमत	सहमत	पूर्ण सहमत
	गर्दछु							
८	सहकर्मिहरुको बारेमा मेरो विचार के छ भन्ने बारेमा वहाँ हरुलाई म भन्ने गर्छु							
९	जेखिमपूर्ण निर्णयहरु गर्न म एक्लैलाई कुनै समस्या हुदैन							
१०	म सहकर्मिहरुलाई पुरस्कृत हुन के गर्नुपर्छ भन्न जानकारी गराउछु							
११	म सहकर्मिहरुले तोकिएको मापदण्ड पूरा गरेमा सन्तुष्ट हुन्छु							
१२	सहकर्मिहरुले सधैँ एकै किसिमले काम गरेको देख्दा म सन्तुष्ट हुन्छु							
१३	म संग काम गर्न सहकर्मिहरु गौरवान्वित हुन्छन							
१४	म सहकर्मिहरुको कामलाई अर्थपूर्ण बनाउन सहयोग गर्छु							
१५	सहकर्मिहरुलाई जटील समस्याको समाधानका लागि नयाँ तरिका खोज्न म सहयोग गर्छु							
१६	म कमजोर सहकर्मिलाई विशेष ध्यान दिनुछु							
१७	निर्णयलिने सन्दर्भमा म अन्तरआत्माको कुराबाट निर्देशित हुन्छु							
१८	सहकर्मिहरुले लक्ष्य हाँसिल गरेमा म वहाँहरुलाई प्रोत्साहन/पुरस्कृत गर्छु							
१९	जबसम्म लक्ष्य अनुरूप कार्यहरु भै रहन्छ म काम गर्ने तरिका परिवर्तन गर्दिन							
२०	सहकर्मिहरुले जसुके गरेपनी मलाई स्वीकार्य हुन्छ							
२१	म सहकर्मिहरुलाई मेरो प्रमुख							

	मेरो विचारमा	पूर्ण असहमत	असहमत	आंशिक असहमत	अनिर्णित	आंशिक सहमत	सहमत	पूर्ण सहमत
	मुल्य र मान्यताहरु भन्ने गर्छु							
२२	मेरा दुरदृष्टीहरु सबै सामु शशक्त रूपमा राख्दछु							
२३	कहिलै नउठेका प्रश्नहरुको बारेमा सोचन सहकर्मिहरुलाई म प्रोत्साहित गर्छु							
२४	म सहकर्मिहरुको काम गर्ने वातावरणको विषेश ध्यान दिने गर्छु							
२५	आवश्यकता हुँदाको समयमा म छिटो निर्णय लिने गर्छु							