INFLUENCE OF TRANSFORMATIONAL LEADERSHIP ON RISK-BASED PRICING MODEL: A CASE OF KENYA COMMERCIAL BANKS WITHIN NAIROBI COUNTY

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Declaration

I confirm that this thesis represents my original work and has not been previously submitted for evaluation at any other university or educational institution.

Dedication

I would like to express my heartfelt dedication of this thesis to my beloved family. Throughout my postgraduate studies, I have been fortunate to receive your boundless love, unwavering support, and constant encouragement. Your presence in my life has been an invaluable source of strength and inspiration, and I am deeply grateful for your unwavering belief in my abilities. This accomplishment would not have been possible without your continuous support and understanding. Thank you for being my rock and for being there for me every step of the way.

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Acronyms/Abbreviations

APT	: Arbitrage Pricing Theory
CBK	: Central Bank of Kenya
CCM	: Centre for Capital Markets
CRB	: Credit Reference Bureau
NACOSTI	: National Council for Science, Technology, and Innovation
PACU	: Pan African Christian University
SMEs	: Small & Medium Enterprises
SPSS	: Statistical Package for Social Scientists
US	: United States
DTI	: Debt-to-income ratio

Definition of Terms

Transformational Leadership: This is the process of creating commitment to corporate goals and empowering employees to achieve those goals (Bass et al., 2006).

Risk-Based Pricing: This is a credit scoring algorithm that uses a customer's loan payback history, data from licensed credit reference bureaus, and internal credit research to price a loan depending on a customer's specific credit score (Kagan et al., 2020).

Arbitrage Pricing: This is a multi-factor asset pricing model based on the assumption that the expected return of an asset can be predicted using a linear relationship between the asset's expected return and a set of macroeconomic factors that reflect systematic risk. It is a valuable tool for assessing portfolios from the standpoint of value investing, in order to spot assets that are momentarily mispriced (Charupat et al., 1996).

Individualized consideration: This refers to the extent to which the leader pays attention to the needs of each follower, acts as a mentor or coach to the follower, and listens to the follower's problems and requirements (Rafferty et al., 2006).

Intellectual Stimulation: This is a leader's willingness to question assumptions, take chances, and elicit feedback from his or her followers. This type of leader stimulates and encourages their followers' inventiveness. They encourage and cultivate autonomous thinkers. Learning is important to such a leader, and

	unexpected situations are welcomed as learning opportunities. Followers ask questions, think deeply about issues, and come up with new ideas to carry out their duties (Anand et al., 2008).
Inspirational Motivation:	This refers to the extent to which the leader articulates an appealing and inspirational vision for his or her followers (Kariuki, 2021).
Idealized Influence:	This is a leadership style that includes acts that make followers feel proud to be connected with the leader (Kariuki, 2021).
Debt-to-income ratio:	This is a metric used by creditors to assess a borrower's ability to repay debts and make interest payments. The debt-to-income ratio compares a person's monthly debt payments to his or her monthly gross income. It is a key indicator used by lenders to assess a person's ability to repay monthly payments and accumulate additional debt (Michael Ahn et al., 2018).
Interest Rates:	Interest rates refer to the percentage of the loan amount or investment principal that is charged or earned as compensation for the use of money over a specified period (Bartlett et al., 2022). In financial terms, interest rates represent the cost of borrowing or the return on investment. They are typically expressed as an annual percentage rate (APR) and are applied to various financial transactions such as loans, mortgages, savings accounts, bonds, and other financial instruments.
Credit Scoring:	Credit scoring is a method of determining a borrower's creditworthiness by analyzing credit data such as payment

history, credit utilization, length of credit history, credit types, and outstanding debt. This data is typically gathered from credit reports issued by credit reference bureaus and used to calculate a credit score, which is a numerical value that represents the borrower's creditworthiness (Kochański, 2022).

Internal Customer Profile Data: Internal customer profile data typically consists of a variety of information points that help create a comprehensive understanding of the customer's preferences, behaviors, and needs (Park et al., 2012).

Central Bank of Kenya: The Central Bank of Kenya (CBK) is the central monetary authority and regulatory body responsible for overseeing and managing the banking and financial system in Kenya (Abdelsalam, et., al, 2020). It is the primary institution that formulates and implements monetary policy, maintains price stability, promotes a sound and stable financial system, and issues currency in the country.

Commercial Banks: Commercial banks refer to financial institutions that are authorized to provide a wide range of banking services to the public and businesses. These banks operate with the primary objective of generating profits by offering various financial products and services. They are regulated and supervised by the Central Bank of Kenya (CBK) to ensure compliance with banking regulations, maintain financial stability, and protect the interests of depositors and customers.

Tier 1 Banks:	Tier 1 banks refer to the highest category of commercial banks in a banking system, typically classified based on their capital adequacy ratios and financial strength. They are considered the most powerful and well-capitalized institutions. These banks are deemed "too big to fail" due to their significance in the banking industry. They are required to maintain a minimum capital adequacy ratio of 14%. In other words, they must have capital reserves equivalent to at least 14% of their risk-weighted assets.
Tier 2 Banks:	Tier 2 banks refer to commercial banks that are classified as the second tier based on their capital adequacy ratios and financial strength. These banks fall below Tier 1 banks in terms of capitalization and systemic importance but still maintain a moderate level of capital adequacy. These banks must maintain a minimum capital adequacy ratio of 10%, indicating that their capital reserves should be at least 10% of their risk-weighted assets.
Tier 3 Banks:	Tier 3 banks refer to commercial banks that are classified as the third tier based on their capital adequacy ratios and financial standing. These banks have a lower level of capital adequacy compared to Tier 1 and Tier 2 banks.

Abstract

For a long time, the Kenyan government has been persuading commercial banks to apply a loan pricing model known as "risk-based pricing" through the Central Bank of Kenya, the banks' regulator. This study aimed at investigating the impact of transformational leadership on risk-based pricing model by commercial banks within Nairobi County. Specifically, it sought to: determine whether idealized influence affects risk-based pricing model, investigate the relationship between intellectual stimulation and risk-based pricing model, establish the influence of individualized consideration on risk-based pricing model, and investigate the extent to which inspirational motivation influences risk-based pricing model by commercial banks within Nairobi County. The research was grounded on transformational leadership and arbitrage pricing theories. The study utilized a cross-sectional descriptive research design and employed a stratified sampling technique to select 234 bank managers from Tier 1, Tier 2, and Tier 3 commercial bank branches within Nairobi County. Quantitative data was collected through administration of open and closed-ended questionnaires. The analysis of the data comprised of both descriptive and inferential statistics. Descriptive statistics were used to summarize and describe the key features and characteristics of the data while inferential statistics were employed to draw conclusions and make inferences about the population based on the sample data. The findings revealed that idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration all significantly and positively influenced risk-based pricing model (p-values< 0.05). These results indicated that employing transformational leadership strategies can foster a culture of risk-taking and encourage risk-based pricing in commercial banks, thereby enhancing their financial performance. The study provides valuable insights for commercial banks in Kenya, demonstrating the potential of transformational leadership in promoting acceptance of risk-based pricing strategies. It also holds theoretical implications for leadership studies and policy implications for Kenya's regulatory environment.

Chapter One: Introduction and Background to the Study

Introduction

This chapter outlines the research background, research problem, research objectives, and research questions. It also includes a review of the study assumptions, justification, significance, scope, and limitations, as well as a summary of the chapter.

Background to the Study

Leadership is the process by which one person persuades a group of people to pursue a collective objective (Van Knippenberg, 2019). For an organization to succeed, its leadership must guide the team to greater heights even during tough moments. According to Fiaz et al., (2017) there are five major leadership styles that can be used depending on the organization and the people being managed: laissez-faire, autocratic, participative, transactional, and transformational. While transactional leadership is judged on the basis of the leader's ability to provide contingent reward and active management-by-exception, transformational leadership is judged on the basis of the leader's ability to provide idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Transformational leadership is currently receiving a lot of attention due to its ability to use the most important resource - the human resource - to achieve the organization's goals (Ismail et al., 2011).

In a commercial banking context, shifting from arbitrage pricing model to risk-based pricing model can be challenging because it requires a significant shift in mindset and approach from traditional methods (Mohapatra et al., 2016). This can be especially true for employees who have been using the same pricing model for many years and may be resistant to change. Arbitrage pricing lacks consideration for individual risk profiles, potentially resulting in unfair or inefficient pricing where loan terms are applied as a blanket to all. Its

applicability is limited to specific scenarios and may not be effective in all markets. There is a high execution risk involved, as timely and accurate trades are necessary to capture price discrepancies. Additionally, arbitrage pricing relies on the assumption of market efficiency, which may not always hold true. Transformational leaders can assist employees in understanding the benefits of risk-based pricing model and how it can be used to improve the bank's overall performance. Furthermore, by serving as role models, they can demonstrate how to effectively use the new loan pricing model and how it can be integrated into the bank's overall strategy (Maina & Maina, 2018).

Transformational Leadership

Transformational leadership can play a significant role in promoting the acceptance and implementation of the risk-based pricing model within commercial banks. Transformational leaders have the ability to inspire and motivate their teams, encouraging them to think creatively and take calculated risks (Andriani et al., 2018). By effectively communicating the benefits and rationale of the new pricing model, transformational leaders can generate employee excitement and buy-in (Andriani et al., 2018). They serve as role models, demonstrating the advantages of the risk-based pricing model through their own actions and decisions, thereby increasing employee trust and acceptance (Andriani et al., 2018).

Furthermore, transformational leaders possess the ability to provide individualized consideration to each follower, acting as coaches or mentors to assist them in meeting their needs and reaching their full potential (Bass, 1978). This personalized support can help employees understand and adapt to the changes brought about by the risk-based pricing model, fostering a more open attitude towards the new pricing approach (Andriani et al., 2018). By offering guidance, feedback, and opportunities for professional development,

transformational leaders can help employees develop the skills and abilities necessary to navigate the challenges associated with the new pricing model (Bass, 1978).

A transformational leader employs four criteria to transform and influence employees (Njiraini et al., 2017). The four dimensions of transformational leadership are defined by Bass (1978). The first type of influence is idealized influence, which is defined as the leader's ability to serve as a role model for their followers. This can be accomplished through a variety of methods, including charisma, high performance, and high moral standards. Leaders demonstrate the behavior they expect from their followers and inspire them to strive for similar levels of excellence through idealized influence. This can boost followers' motivation, commitment, and engagement in the organization, resulting in better performance and overall success. Second is inspiration motivation: it is one of the key components of transformational leadership, in which leaders create and communicate a clear and compelling vision for the organization in a persuasive and appealing manner in order to generate employee excitement and buy-in. This process of instilling a sense of purpose and direction in followers helps to boost motivation, engagement, and commitment, which can lead to improved performance and success. Third is intellectual stimulation, which refers to employee participation in questioning preconceptions, re-evaluating difficulty and difficult situations in order to engage their thoughts, and creating an opportunity to be heard, thereby enabling creativity and innovation. It may also include training and coaching, assigning work based on each person's abilities, and monitoring performance (Khan et al., 2020). The last one is individualized consideration which refers to a leader's ability to provide personalized support and attention to each follower, acting as a coach or mentor to assist them in meeting their needs and reaching their full potential. This can include offering opportunities for professional development and growth, as well as providing guidance, feedback, and constructive criticism. Leaders can help followers develop their skills and abilities while also increasing their

motivation, engagement, and commitment to the organization by providing individualized consideration. This can lead to better performance and success for both the individual and the organization as a whole. In his seminal article, Bass (1978) proposed the concept of individualized consideration as a key component of transformational leadership.

In all spheres of western societies, including governmental institutions, transformational leadership has become a widely accepted development tool. There is a growing body of literature that supports the effectiveness of this leadership style in a variety of settings, including the commercial, academic, and governmental spheres, as it has been extensively studied and researched in recent years. As noted by Ewell (2018) in the United States of America, among a sample of university employees, transformational leadership was found to be positively associated with employee engagement and job satisfaction.

Le (2020) conducted a study in China to investigate and deepen understanding of how transformational leadership influences radical and incremental innovation through the mediating role of positive psychological capital. The findings of this study revealed that transformational leadership has a positive and significant impact on both radical and incremental innovation. The findings emphasized the role of individual psychological capital as a moderator in the relationship between transformational leadership and various aspects of innovation capability.

Rizkillah et al. (2022) conducted a study on banking employees in Mataram City, Indonesia, to examine and determine significance of psychological capital, organizational commitment, and transformational leadership on organizational citizenship behavior (OCB) and the role of emotional intelligence moderation. The findings revealed that psychological capital had a positive and significant effect on OCB, organizational commitment had a positive and significant effect on OCB, transformational leadership had a positive and significant effect on OCB, and emotional intelligence positively and significantly moderated

the influence of psychological capital, organizational commitment, and transformational leadership on OCB.

A recent study in Taiwan by Lai et al., (2020) states that transformational leaders are said to use a variety of behaviors to inspire organizationally beneficial behaviors such as greater task performance and assisting behaviors. Employees who are motivated by transformational leadership are more likely to immerse themselves in their work, which leads to improved task performance and helpful behaviors. Tian et al., (2020) observed a positive and significant association between transformational leadership and organizational behavior among manufacturing SMEs in Jiangsu Province, Mainland China.

Using structural equation modeling, Kittikunchotiwut (2020) examined the connections between transformational leadership, learning orientation, business innovativeness, and financial performance across SMEs in Thailand. The results showed that transformational leadership has a positive impact on learning orientation. The capacity for innovation inside a corporation was also positively impacted by transformational leadership. The study also found that transformational leadership has a positive indirect impact on financial performance through the mediation of learning orientation. This study focused on generalized role of transformational leadership in institutions. It did not dissect the elements of transformational leadership and look at their individual role in an organization.

Zia (2015) investigated the perceptions of transformational leadership among the employees of the banking sector in Jeddah, Saudi Arabia. He adopted a multifactor leadership questionnaire to elicit the perceptions of employees. The findings revealed that transformational leadership had not been exercised by the bank managers. Employees believed that their bosses did not support them, did not present them with a vision, did not encourage their inventive thinking, and did not endeavor to extend communication.

In a study by Islam et al., (2020), the banking industry in Bangladesh was used to examine the impact of transformational leadership on employee championing behavior. The study also explored the potential of trust in leadership as a mediating factor between transformational leadership and championing behavior in the context of organizational change. The results of the study showed that, during organizational change, employee trust in leadership and championing behavior were significantly impacted by transformational leadership. The study, however, did not reveal the impact of transformational leadership on risk-based pricing model by commercial banks. The present research looked into how transformational leadership influences risk-based pricing model by commercial banks within Nairobi County.

In a study conducted in South Africa, Visser et al., (2005) sought to determine whether entrepreneurs in SMEs in the South African context possess characteristics that manifest them as transformational leaders, as well as whether such entrepreneurs' profiles of entrepreneurship and transformational leadership in SMEs contain elements that, if appropriately applied, will almost certainly result in organizational innovation. The study found a significant and favorable correlation between the traits of an entrepreneur and those of a transformational leader. Additionally, in order to develop and validate a theoretical model to explain the structural relationships between ethics, leadership, and values in the South African business context, Engelbrecht et al. (2005) conducted a study. The study found that altruism has a positive impact on transformational leadership, which in turn has a positive impact on the ethical climate. The idea that integrity moderates the impact of transformational leadership on ethical climate was also found to have some merit.

In Tanzania, individualized consideration and intellectual stimulation were found to have a good link with the performance of banking industry employees (Magasi, 2021).

According to the study, leaders in every bank division should empower staff and encourage learning, creativity, and innovation.

According to Ryan et al. (2008), the public sector in Kenya, where it is more typical to find organizations that are socially conscious and have a strong sense of community, may be an area where the combination of transformational leadership and "Harambee" may be particularly effective.

A study conducted in Kenya by Kamau and Ogutu (2020) revealed that commercial banks with leaders who had used transformational leadership demonstrated improved performance over time. The study concluded that there is a strong positive relationship between commercial banks' performance and transformational leadership. In other organizations, the leadership style has been linked to higher employee performance (Nyamota, 2020). Subordinates and employees' willingness to support and implement change is also influenced by the leadership style (Deschamps et al., 2016; Hechanova & Cementina-Olpoc, 2012; Uddin, 2013).

Commercial Banks in Kenya

Financial institutions like commercial banks are essential to the strength of an economy. They transfer funds from savers (surplus units), generally, to borrowers (deficit units). According to State of the Banking Industry Report of 2020, there were 39 commercial banks in Kenya and based on capital adequacy and financial stability. The banks are classified into three tiers: Tier 1, Tier 2 and Tier 3. The CBK reviews and updates the classification of commercial banks into these tiers on a regular basis, as specified in its regulations and guidelines.

Tier 1 Banks: Tier 1 banks are considered the most powerful and have the highest capital adequacy ratios. These banks are deemed "too big to fail" due to their significance in

the banking industry. They are required to maintain a minimum capital adequacy ratio of 14%. In other words, they must have capital reserves equivalent to at least 14% of their risk-weighted assets. The Tier 1 banks in Kenya numbered nine in the year of the report.

Tier 2 Banks: Tier 2 banks are characterized by a moderate level of capital adequacy. These banks must maintain a minimum capital adequacy ratio of 10%, indicating that their capital reserves should be at least 10% of their risk-weighted assets. There were eight Tier 2 banks in Kenya at the time of the report.

Tier 3 Banks: Tier 3 banks are classified as having a lower level of capital adequacy compared to Tier 1 and Tier 2 banks. They are required to maintain a minimum capital adequacy ratio of 7%, signifying that their capital reserves should be at least 7% of their risk-weighted assets. Tier 3 banks in Kenya were 22 at the time of the report.

The digitalization of commercial banks in Kenya is one of the current trends, according to the Central Bank of Kenya's Financial Stability Report of 2021. To enhance customer convenience and service, banks are investing in digital technologies like mobile banking, online platforms, and digital wallets. Numerous financial institutions have created mobile applications that let users manage their accounts, send money, and pay bills using their smartphones. Furthermore, more financial institutions are implementing use of mobile money applications like M-Pesa and Airtel Money, which let users transfer money, pay bills, and make purchases using their smartphones.

Another emerging trend is the application of artificial intelligence and machine learning to enhance customer service, risk management, and fraud detection. These technologies are being used by banks to analyze customer data and behavior in order to provide personalized services and detect fraudulent activities.

In order to shield consumers from exorbitant interest rates, the Central Bank of Kenya (CBK) set interest rate ceilings in 2016. The CBK set a ceiling on loan interest rates at 4% above the then 7% level of the central bank's policy rate. Bank profitability was impacted by the interest rate cap because banks were unable to charge as much interest on loans as they could before the caps were put in place. As a result, banks were compelled to find alternative revenue-generating strategies, such as raising fees and charges, broadening the scope of their product and service offerings, and tapping into untapped markets. The interest rate cap was a contentious issue in Kenya, with some claiming that it reduced bank profitability and made it more difficult for banks to lend to consumers and small businesses (Raji, 2020). Others, on the other hand, argued that it helped to protect consumers from predatory lending practices and made credit more accessible to a wider range of people. The caps were eventually removed in 2019.

Commercial banks are subject to three different types of risk, according to Cornett and Saunders (1999): financial risk, of which credit risk is a subset; operational risk; and strategic risk. The operations of commercial banks are impacted by these risks in a number of different ways. When compared to other risks, credit risk has the highest magnitude and level of loss, which is what leads to bank failures. According to Bridge (1998), one of the main causes of banking difficulties has been identified as credit issues. Loans account for a sizeable portion of credit risk because they typically amount to 10-15 times a bank's equity (Barth et al., 2004). The inadequate loan quality is due to the information processing system. It begins right at the loan application stage and worsens during the loan approval, monitoring, and controlling phases, especially when there are no credit risk management guidelines or when they are rudimentary or insufficient. Commercial banks must implement a successful credit risk management system to reduce loan losses (Basel, 2004). Due to the disparity in information between lenders and borrowers, commercial banks are susceptible to moral

hazard and adverse selection. Commercial banks must therefore implement a system that not only assesses default risk that is unknown to them in order to avoid adverse selection but also one that is flexible enough to change after lending in order to avoid moral hazard.

Risk Based-Pricing Model

Risk-based pricing is a method of determining interest rates to be charged on loans or credit based on the risk profile of a particular borrower or a class of borrowers (McCoy, 2007). To improve lending practices and manage credit risk, the Central Bank of Kenya (CBK), which introduced Credit Reference Bureaus in 2010, is now pushing banks toward risk-based pricing model based on existing CRB data, credit scores, and commercial banks' internal customer data (Getenga, 2021). To manage risk and attract more customers, commercial banks can use risk-based pricing to offer personalized interest rates to customers based on their specific risk profile (Staten, 2015).

According to Getenga, (2021), risk-based pricing can offer significant benefits to both banks and customers. For banks, implementing risk-based pricing would allow for improved profitability and risk management. By assessing the creditworthiness of individual customers more accurately and pricing loans accordingly, banks can optimize their profitability by ensuring that they are adequately compensated for the risk they are taking. It can also help in managing the overall risk exposure of the bank's portfolio more efficiently. Additionally, risk-based pricing strategies provide a competitive advantage to banks by attracting low-risk borrowers with more favorable terms, thus acquiring, and retaining high-quality customers. For customers, risk-based pricing promotes fair pricing and access to credit. Customers are offered interest rates and terms that are aligned with their individual risk profiles, ensuring that they are treated fairly based on their creditworthiness. It can also expand access to credit for individuals who may not meet traditional lending criteria but can demonstrate their ability to repay based on their specific risk profile. Moreover, risk-based pricing can create

incentives for credit improvement, as customers assigned higher rates due to their risk profile are motivated to improve their creditworthiness. By demonstrating responsible financial behavior and enhancing their credit score, customers can potentially qualify for lower rates in the future. Consumers who reduce their risk receive lower prices and greater access (Getenga, 2021).

According to the State of the Banking Industry Report of 2020, six banks had implemented risk-based pricing model. Applying risk-based pricing model would allow banks to lend funds to all borrowers while charging a higher premium to those with low credit scores (Getenga, 2021). Furthermore, as their risk profiles improve, consumers can request that their existing rates be reviewed or shop around for better rates from other banks. In order to evaluate borrowers' creditworthiness and determine their risk profile, banks employ a variety of techniques. Guidelines for risk-based pricing have been released by CBK, which call for use of internal customer profile data, credit scoring in addition to credit bureau data. Application of risk-based pricing is expected to improve lending efficiency by allowing banks to better manage credit risk and set interest rates that are more reflective of borrowers' risk profiles. This is expected to lead to more accurate credit pricing, which will benefit both borrowers and lenders (Getenga, 2021).

Credit Scoring. Credit scoring is a method of determining a borrower's creditworthiness by analyzing credit data such as payment history, credit utilization, length of credit history, credit types, and outstanding debt. This data is typically gathered from credit reports issued by credit reference bureaus and used to calculate a credit score, which is a numerical value that represents the borrower's creditworthiness. Lenders use credit scores to help determine the risk of lending money to a specific borrower and to set loan terms and interest rates accordingly (Hand et al., 1997). A person's credit score typically falls between 300 and 850, with 850 being the highest score that may be achieved. According to the Fair

Isaac Corporation's (FICO score) and Vintage score credit rating systems, credit scores for small firms typically vary from zero to 300, with 300 being the highest attainable score. In risk-based pricing where the parameters of a loan, including the interest rate offered to borrowers, are dependent on the likelihood of payback, lenders use credit scoring. In general, the higher the credit score, the better the loan terms offered by a financial institution. Establishment of CRBs has made customer's credit score readily available and indeed, in the CRB regulations issued by the CBK in 2020, banks are required to consider a customer's credit score in determining loan pricing. This enables banks to accurately analyze their customer's credit behavior and avoid falling into bad credit.

Internal Customer Profile Data. The act of defining a customer or group of customers using demographics, psychographics, purchasing patterns, and other criteria is known as customer profiling (Park et al., 2012). Customer profiling in risk-based pricing enables lenders to identify better-fit prospects, lowers customer acquisition costs, reduces customer churn, and empowers banks to better serve their customers (Khan, 2012). A refined customer profile can help lenders in developing more impactful product features, finding and attracting more customers who are likely to buy their products, developing a stronger relationship with their customers, and positioning themselves for market dominance.

Interest Rates. Lenders use interest rate criteria in risk-based pricing to broaden their spectrum of borrowers as they are able to serve both low and high-risk borrowers (Staten, 2014). For the same loan, high-risk borrowers pay a higher interest rate instead of being totally denied loans while low-risk borrowers pay a lower interest rate as their default risk is low. As a result, risk-based pricing benefits both borrowers and lenders while also promoting economic vibrancy. According to Mutemi et al. (2019), with the implementation of risk-based pricing in Kenya, lenders will no longer be constrained by the 14 percent interest rate cap (repealed) applicable but will instead be able to vary interest rates between 13 and 18

percent. This is expected to increase customer traffic and profit margins. An interest rate is applied to each borrower, or class of borrowers, based on a calculation of their default risk. In general, interest rates imposed to borrowers should match their risk of default (Geanakoplos, 2002; Chatterjee et al., 2007).

Lack of credit bureau data and credit scoring systems, which restrict banks' ability to evaluate borrowers' creditworthiness, can hinder application of risk-based pricing model. To address this issue, CBK issued Credit reference bureau regulations in 2008 and mandated use of credit scores to determine loan pricing in the revised CRB regulations 2020. This should enable banks to determine borrowers' creditworthiness and make more informed lending decisions, potentially enabling more people and businesses to access credit under terms commensurate to their risk profiles.

In order to fulfill the needs of minority and low-income households, risk-based pricing has been implemented in various parts of the world, including the United States (Pham & Donovan, 2021). The peer-to-peer lending business has also used the pricing approach (Wang, 2020). Walke et al. (2018) investigated whether risk-based loan pricing increased loan availability, particularly for high-risk borrowers, in not-for-profit credit unions in the United States. Adopters of risk-based pricing increased loan availability compared to non-adopters, according to the findings. However, when compared to matched non-adopters, average risk levels, as measured by delinquency rates, appeared to be slightly lower for risk-based pricing adopters. In contrast to claims that risk-based pricing benefits high-risk borrowers who would otherwise be denied credit, the implication was that lending increased primarily for low-risk borrowers who were able to borrow higher loan amounts. However, the study did not reveal the impact of transformational leadership on commercial banks' risk-based pricing model.

A study by Magri (2019) aimed to investigate whether the pricing of consumer loans in Italy was based on the borrower's specific risk. The study found that the pricing of consumer loans was primarily correlated with household economic and financial conditions, such as net wealth, the number of income earners and the level of education of the household head as a representation of future income between 2010 and 2012. The study concluded that risk-based pricing was not applied consistently across all loan types or all borrowers, and that other factors such as household economic and financial conditions played a significant role in determining the price of consumer loans. This is consistent with other studies on risk-based pricing which have found that while risk-based pricing is commonly used, other factors such as the borrower's collateral, and the purpose of the loan also play a significant role in determining the interest rate applied. It is worth noting that the study was based on data between 2010 and 2012 and the current scenario may have changed. However, the findings of the study highlight the importance of considering a variety of factors when assessing the risk associated with lending and the importance of ensuring that risk-based pricing is used in a fair and transparent manner.

A study conducted by Adu (2016) examined the extent to which commercial banks in Ghana used risk-based pricing and the factors that influenced the pricing of loans. The study found that commercial banks in Ghana indeed used risk-based pricing to determine the interest rates for loans. The study found that the main factors that influenced the pricing of loans by commercial banks in Ghana included the creditworthiness of the borrower, the collateral provided, the loan amount, and the purpose of the loan. The study also found that use of credit scoring systems was not widespread in Ghana, and that commercial banks relied more on collateral and the borrower's reputation in determining creditworthiness. The study also found that commercial banks generally charged higher interest rates for unsecured loans than for secured loans, and for loans with a higher risk of default. Additionally, the study

found that, in Ghana, credit risk was found to be a significant determinant of loan pricing, but also found that other factors such as relationship lending, political connections and bank-specific factors played a role in loan pricing. Overall, the study suggested that commercial banks in Ghana used risk-based pricing to determine the interest rates for loans, but that use of credit scoring systems was not widespread and instead, commercial banks relied more on collateral and the borrower's reputation in determining creditworthiness.

In a study in Nigeria, Adediran (2015) investigated how commercial banks used risk-based pricing and determined the variables that affected loan pricing. According to the study, commercial banks in Nigeria do set loan interest rates using risk-based pricing. The study also discovered that the creditworthiness of the borrower, the collateral offered, the loan amount, and the loan's purpose were the primary variables influencing pricing of loans by commercial banks. They rarely used credit scoring systems and instead heavily relied on borrower reputation and collateral to assess creditworthiness. The study also discovered that the banks typically charged higher interest rates for unsecured loans compared to secured loans and for loans that carried a higher default risk.

Byarugaba (2016) conducted a study in Uganda to investigate commercial banks' use of risk-based pricing and to identify the factors that influenced loan pricing. According to the study, the main factors influencing the pricing of loans by commercial banks in Uganda included the borrower's creditworthiness, the collateral provided, the loan amount, and the purpose of the loan. The study also discovered that commercial banks in Uganda placed a high value on collateral and the borrower's reputation when determining creditworthiness, and that credit scoring systems were not widely used. The study also discovered that while credit risk was a significant determinant of loan pricing, other factors such as relationship with the customer and political connections played a significant role in determining loan pricing.

According to Bett and Wepukhulu (2019), risk-based pricing model implementation in Kenya was still in its early stages, with most commercial banks in the country still developing their risk-based pricing model for approval by the CBK. Furthermore, commercial banks in Kenya were increasingly recognizing the importance of risk-based pricing as a way to improve their loan portfolio and better manage credit risk. However, the study discovered that only a few commercial banks were developing the model. The study suggested that more work was needed to fully implement risk-based pricing in by commercial banking sector.

Another study by Kariuki and Ndung'u (2015) looked into the factors influencing loan pricing by commercial banks in Kenya and the extent to which risk-based pricing model is used by those institutions. According to the study, only a few commercial banks in Kenya applied risk-based pricing to establish loan interest rates but the main variables that affect loan pricing were the borrower's creditworthiness, the collateral offered, the loan amount, and the purpose of the loan. The study also discovered that credit scoring systems are not commonly used by commercial banks in Kenya, which heavily rely on collateral and borrower reputation when determining creditworthiness.

Statement of the Problem

Transformational leadership can be extremely important in effecting change such as the movement of commercial banks from arbitrage pricing model to risk-based pricing model in the context of commercial banking (Maina &Maina, 2018). Transformational leaders inspire and motivate their teams to think creatively and take calculated risks, which can lead to a more open attitude towards a new pricing model as such leaders are able to communicate to employees the benefits of such changes (Bass& Riggio,2006). Application of risk-based pricing model may have far reaching benefits to both commercial banks and their clients because it provides consumers with better access to capital at lower rates while also assisting

banks in effectively predicting and accounting for risk. Consumers who reduce their risk receive lower prices and greater access. Furthermore, as their risk profiles improve, consumers can request that their existing rates be reviewed or shop around for better rates from other banks (Getenga, 2021).

For a long time, the Kenyan government has been attempting to persuade commercial banks to apply risk-based pricing model. Despite CBK's efforts and clear benefits associated with this model, its implementation by commercial banks in Kenya is extremely slow and still at infancy stages (Bett & Wepukhulu, 2019). The Kenya banking sector has been hesitant to change its loan pricing strategies to match creditworthiness of the borrowers (Getenga, 2021). According to a study conducted by the Central Bank of Kenya in 2018, majority of commercial banks in Kenya continued to apply arbitrage pricing model instead of risk-based pricing model. Arbitrage pricing model allows application of similar interest rates to all borrowers, limiting borrowers with poor credit scores from accessing funds. Despite the establishment of reliable CRBs, there is scanty evidence on use of risk-based pricing model across Africa and East Africa (Mlay et al., 2018).

Debele and Birbirsa (2019) investigated if a company's leadership style aids risk management in Ethiopia's tomato production value chain. The study adopted a descriptive analysis to show that leadership style affects enterprise risk management significantly. However, this study was done on an agricultural product. The current study sought to investigate the impact of transformational leadership style on risk-based pricing model by commercial banks within Nairobi County.

The foregoing studies on risk-based pricing model were carried in other countries rather than in Kenya. In addition, the studies failed to show the impact of transformational leadership on risk-based pricing model. Therefore, this study sought to bridge the knowledge gap by investigating the elements of transformational leadership and their influence on risk-

based pricing model across commercial banks within Nairobi County, in order to answer the question of whether transformational leadership influences risk-based pricing model. Nairobi County, being a vibrant financial hub in Kenya, presented an excellent opportunity to investigate this relationship.

General Objective

The general objective of the study was to determine whether transformational leadership influences risk-based pricing model by commercial banks within Nairobi County, Kenya.

Specific Objectives

i. To determine whether idealized influence affects risk-based pricing model by commercial banks within Nairobi County.
ii. To investigate the relationship between intellectual stimulation and risk-based pricing model by commercial banks within Nairobi County.
iii. To establish the influence of individualized consideration on risk-based pricing model by commercial banks within Nairobi County.
iv. To investigate the extent to which inspirational motivation influences risk-based pricing model by commercial banks within Nairobi County.

Research Questions

i. How does idealized influence affect risk-based pricing model by commercial banks within Nairobi County?
ii. What is the relationship between intellectual stimulation and risk-based pricing model by commercial banks within Nairobi County?
iii. What is the influence of individualized consideration on risk-based pricing model by commercial banks within Nairobi County?

iv. How does inspirational motivation influence risk-based pricing model by commercial banks within Nairobi County?

Assumptions of the Study

The successful execution of the study on the influence of transformational leadership on the risk-based pricing model by commercial banks within Nairobi County relied on several key assumptions. Firstly, it assumed that respondents from the commercial banks provided accurate and genuine information, ensuring the reliability of the collected data. Secondly, the study assumed the presence of transformational leaders within the banks, who possess the necessary qualities to inspire and motivate employees. Additionally, it assumed that transformational leadership has a significant impact on the implementation and effectiveness of the risk-based pricing model. The study also presumed that transformational leaders create a supportive and innovative work environment that encourages employees to embrace and apply the risk-based pricing model effectively.

Justification of the Study

The study on the influence of transformational leadership on the risk-based pricing model by commercial banks within Nairobi County was necessary for several reasons. Firstly, despite the clear benefits associated with the risk-based pricing model, adoption and implementation of this model in the Kenyan banking sector has been slow and limited. The study aimed to understand the reasons behind this hesitation and explore the role of transformational leadership in driving the acceptance of the risk-based pricing model.

Secondly, the study sought to address the gap in existing literature. Previous studies on risk-based pricing models and leadership styles have been conducted in other countries and industries, with limited research specifically focused on the Kenyan context and the banking sector. By conducting this study in Nairobi County, a major financial hub in Kenya

that houses headquarters of every commercial bank, the researcher aimed to provide valuable insights into the relationship between transformational leadership and the risk-based pricing model in a relevant and practical setting.

Furthermore, the study aimed to contribute to the overall improvement of lending practices and risk management in the Kenyan banking sector. By understanding how transformational leadership can influence the adoption and effectiveness of the risk-based pricing model, the study aimed to provide recommendations and insights that could encourage commercial banks to embrace change, enhance their risk management practices, and ultimately benefit both the banks themselves and the consumers of loans.

Significance of the Study

The study on the influence of transformational leadership on the risk-based pricing model by commercial banks within Nairobi County sought to explore the relationship between leadership practices and the adoption and effectiveness of the risk-based pricing model. It aimed to investigate how transformational leaders within commercial banks in Nairobi County influence the implementation and outcomes of the risk-based pricing model, including its impact on financial performance, risk management, and employee engagement.

The beneficiaries of this study are multi-faceted. Firstly, all commercial banks have their headquarters in Nairobi County and can benefit from the findings as they gain insights into the role of leadership in driving successful implementation of risk-based pricing. By understanding the influence of transformational leadership, banks can develop effective leadership strategies and practices that promote a supportive and innovative work environment, leading to improved acceptance and utilization of the risk-based pricing model.

Furthermore, the study's findings can benefit policymakers, regulatory bodies, and the banking industry as a whole. Policymakers can use the insights to develop guidelines and

regulations that encourage acceptance of risk-based pricing and promote effective leadership practices within banks. The banking industry, as a whole, can benefit from improved financial performance and risk management outcomes by leveraging the study's findings to enhance leadership development and implement best practices related to the risk-based pricing model. Consumers can therefore expect to benefit from transparent and fair pricing, increased access to credit based on individual risk profiles, tailored loan products that meet their specific needs, and enhanced customer service experiences.

Scope of the Study

The study was conducted exclusively within commercial banks operating in Nairobi County, which is the capital city of Kenya and a significant financial hub in the country. Nairobi County is home to headquarters of each and every commercial bank in Kenya, making it an ideal location to investigate the influence of transformational leadership on the implementation of the risk-based pricing model. Data was collected from all 39 commercial banks in Nairobi County, which collectively have 564 bank branches (Faria, 2022). These banks were considered homogeneous in terms of providing financial services. The study specifically focused on credit managers as key stakeholders involved in the application of the risk-based pricing model within commercial banks in Nairobi County. Credit Managers were critical for this study as every commercial bank branch has an overall credit manager that plays a crucial role in assessing creditworthiness, determining loan terms, and setting interest rates. Their perspectives and experiences are valuable in understanding the influence of transformational leadership on the implementation and effectiveness of the risk-based pricing model.

Data for the study was collected using a Google Form questionnaire, which provided the respondents with the flexibility to participate at their convenience within the designated two-week data collection period, 14th to 28th April 2023. This digital platform eliminated the

need for physical distribution and collection of paper-based questionnaires, saving time and resources. The use of Google Forms streamlined the data collection process, ensuring convenience for the respondents and enabling efficient data organization and analysis.

Limitation of the Study

There were several limitations that impacted the findings and generalizability of the research findings. One limitation was reliance on self-reported data, which introduced the possibility of response bias or inaccurate information. To mitigate this limitation, the researcher ensured the anonymity and confidentiality of the respondents, which encouraged them to provide honest and genuine responses. Another limitation was the potential omission of confounding variables or external factors that could influence the relationship between transformational leadership and the implementation of the risk-based pricing model. To mitigate this limitation, the study recommended further research to explore additional variables and factors that could influence the implementation of risk-based pricing models in commercial banks.

Chapter Summary

This first chapter has provided context for transformational leadership and risk-based pricing model. The statement of the problem section defined the research problem that was investigated. The research objectives and the questions the study attempted to answer were then discussed. The chapter has also covered the assumptions, justification, significance, and scope of the study and discussed the restrictions and limitations. The second chapter covers the study's literature review, which was based on the research objectives.

Chapter Two: Literature Review

This chapter provides an extensive review of the existing literature on the relationship between transformational leadership and the implementation of a risk-based pricing model. The review encompasses a range of studies conducted by various scholars in the field. As emphasized by Creswell and Creswell (2018), a literature review serves the purpose of not only summarizing previous research findings but also establishing connections with ongoing discussions, thereby extending the existing knowledge and addressing any gaps in the literature. In line with this, the present study aimed to identify and address contextual, conceptual, and methodological gaps that exist within the chosen research topic.

Transformational Leadership and Risk-Based Pricing Model

Transformational leadership is a leadership style that focuses on inspiring and motivating employees to reach their full potential, which can result in increased workplace innovation and creativity (Afsar & Umrani, 2019). This leadership style is distinguished by a leader's ability to communicate a clear vision, provide individualized consideration, and instill intellectual stimulation in followers (Nawaz & Khan, 2016). Transformational leaders convert individual needs in an organization into collective interests (Adams, 2018; Conrad, 2018; Korejan & Shahbazi, 2016). It affects employees in a favorable and beneficial way, with the goal of turning them into leaders. It is based on a number of characteristics, including the leader's ability to discipline, encourage, reward, and direct. A transformational strategy emphasizes employees' mentoring style of leadership, empowering and strengthening people's capabilities and dedication to organizational goals, and frequently seeking their buy-in for decisions. Transformational leaders are dedicated to the organization's objectives, but they also strive to develop themselves and their teams.

Othman et al. (2012) assert that this style of leadership aims to raise the level of professional work performance. It is the most influential factor that improves an employee's ability to deal with a variety of situations. As a result, leaders provide supportive environments for employees so that they can maintain their mental health at the highest level possible through inspirational motivation and increased confidence. According to Nguyen et al. (2017), employees' performance is significantly influenced by transformational leadership, and it is built on Maslow's theory of basic human needs as it necessitates a high level of authenticity, self-esteem, and self-actualization. As a result, organizational leaders must possess transformational characteristics by becoming well-informed about their people, as transformational leaders can motivate staff to accomplish anticipated or substantial outcomes (Khan et al., 2020). In addition, production, product quality, productivity, cost management, safety and health, and employee relationships and development can all be indicators of a transformational leader's performance.

Debele and Birbirsa (2019) sought to establish whether a company's leadership style helps with risk management in the tomato production value chain in Ethiopia. The study demonstrated that leadership style has a considerable impact on organizational risk management. As a result, it is recommended for companies to choose a leadership style that is compatible with their organizational risk culture.

A study conducted by Khalili (2016) aimed to explore the association between transformational leadership and employees' creativity and innovation across various industries in Iran. The researcher investigated how transformational leadership behaviors exhibited by leaders influenced employees' ability to generate creative ideas and engage in innovative practices. The findings of the study indicated a positive and significant relationship between transformational leadership and employees' creativity and innovation.

Zuraik et al., (2019) aimed to examine the relationship between CEO transformational leadership, innovation climate, and organizational innovation in US-based corporations. Specifically, the researchers explored how CEO transformational leadership influenced organizational innovation directly and indirectly through its impact on innovation climate. The findings of the study revealed that CEO transformational leadership has a direct positive effect on organizational innovation. This suggests that when CEOs exhibit transformational leadership behaviors, such as inspiring and motivating employees, setting a compelling vision, and promoting a culture of innovation, it directly contributes to enhancing overall organizational innovation. Transformational leaders create an environment that encourages and supports creative thinking, risk-taking, and the implementation of novel ideas, thus fostering organizational innovation. Additionally, the study found that CEO transformational leadership also has an indirect effect on organizational innovation through its influence on innovation climate.

According to Andriani et al. (2018), transformational leadership prioritizes development of individuals within the organization and motivates them to work together towards a common goal. Additionally, transformational leaders inspire and motivate their teams to think creatively and take calculated risks, which can lead to a more open attitude towards the new pricing model as such leaders are able to communicate to employees the benefits of changes such as risk-based pricing model. They frequently serve as role models, demonstrating benefits of such a new model through their own actions and decisions. This may be an effective way to encourage the workforce to accept new ideas more widely, such as new pricing model. For instance, transformational leaders who actively use a new pricing model can demonstrate to their staff that it is a practical and effective choice, which can increase employee trust and buy-in. Additionally, transformational leaders can inspire others

to follow their example by modelling the behavior they want to see in their staff members, such as accepting change and taking calculated risks.

The basic goal of risk management is to ensure that resources are used efficiently and effectively in order to maximize profit and minimize dangers while safeguarding the interests of employees, shareholders and consumers (Vasile et al., 2019). Regardless of their current hierarchical level, all employees within the business should be aware of the relevance of risk management in achieving anticipated results and developing the necessary abilities to execute monitoring and control based on efficiency and effectiveness principles.

Transformational leaders, according to Moon et al., (2021), have a higher emotional intelligence and less biased ability to make risk-based decisions. As a result, they have the right risk attitude and make risk-intelligent decisions. Magri (2019) investigated whether consumer loan prices in Italy were based on the borrower's specific risk, such as loans to purchase cars, furniture, or for other unspecified purposes. The study revealed that between 2010 and 2012, household economic and financial conditions, particularly net wealth, as well as the number of income earners and the education of the household head, which served as a representation of his future income, were primarily correlated with the pricing of consumer loans.

For not-for-profit credit unions in the United States, Walke et al. (2018) sought to ascertain if risk-based loan pricing boosted loan availability, particularly for high-risk applicants. The results showed that adopters of risk-based pricing boosted loan availability in comparison to non-adopters. However, as compared to matched non-adopters, adopters of risk-based pricing appeared to have slightly lower average risk levels, as shown by delinquency rates. Contrary to arguments that risk-based pricing predominantly benefited high-risk borrowers who would otherwise be denied credit, the inference was that lending rose primarily for low-risk borrowers who were able to borrow higher volumes.

Islam et al., (2020) conducted research in the banking sector of Bangladesh. to investigate the impact of transformational leadership on employee championing behavior and to put trust in leadership to the test as a mediating factor between transformational leadership and championing behavior in the context of organizational change. The study's findings revealed that transformational leadership had a significant impact on employee trust in leadership and championing behavior during organizational change.

Conceptual Literature Review

This section entails a review of the conceptual literature on transformational leadership and its elements and the concept of Risk-Based Pricing Model in an organization.

Transformational Leadership

The phrase "transformational leadership" refers to a style of leadership that has an impact on both individuals and social systems. In its ideal form, it promotes valuable and positive change in followers, with the ultimate goal of developing followers into leaders (Kamau & Ogutu, 2020). In its purest form, transformational leadership improves followers' motivation, morale, and performance through a variety of techniques (Seyal, 2015). This leadership style, for instance, involves understanding followers' strengths and weaknesses in order to assign tasks that will maximize their performance, inspiring followers by serving as a role model, challenging followers to take greater ownership of their work, and connecting a follower's sense of self to the organization's mission and collective identity. In the sense that they serve as a moral example of how to work for the benefit of the team, company, and/or community, transformational leaders are idealized. This type of leadership therefore orients followers, leading to an increase in creativity, through information sharing, boosting employee goals, awareness, talents, and learning expectations (Kittikunchotiwut, 2020).

Transformational leadership, according to Bass and Avolio (2013), is a type of leadership that aims to inspire and motivate followers to reach their full potential and work towards a common goal. The leadership style is based on collaboration between the leader and followers, who work together to make the vision a reality. Bass and Avolio identify four critical elements of transformational leadership: idealized influence (the leader's charisma and ability to gain trust and support from followers); inspirational motivation (the leader clearly communicates shared goals and a compelling vision); intellectual stimulation (the leader challenges followers to think critically, take risks, and solve problems); and individualized consideration (the leader recognizes and supports each individual). These behaviors are believed to have a cumulative positive effect on organizational performance.

Goleman (1998) claims that transformational leaders have a high level of emotional intelligence that enables them to establish a supportive and empowering work environment for their followers. This emotional intelligence allows them to form strong bonds, build trust, and encourage teamwork, leading to elevated job satisfaction, motivation and performance among the followers.

Antonakis (2012) investigated the positive effects of transformational leadership on a variety of follower outcomes, including job satisfaction and psychological well-being. He also looked into the factors that influence a leader's ability to be transformational, such as personal traits and situational factors. Antonakis also looked into the relationship between transformational leadership and other leadership styles like transactional and laissez-faire. His research findings provide important insights into the nature and consequences of transformational leadership and can help to develop effective leadership training programs for improving organizational performance.

According to Burns (2010), Mittal (2015) and Njiraini et al. (2017), there are four elements of transformational leadership which have been introduced across the complete

range of leadership. They include individualized consideration, intellectual stimulation, inspirational motivation and idealized influence. The four dimensions of transformational leadership as defined by Bass (1978), are reviewed in turn.

Individualized Consideration. By serving as coach or mentor, transformational leaders pay specific attention to each individual's needs for achievement and progress, and their followers or colleagues are developed to achieve high levels of output. Ogola et al. (2017) used a correlational research design to investigate the influence of individualized consideration leadership behavior on employee performance in 100 Small and Medium Enterprises in Kenya. The results showed that individualized consideration leadership behavior and employee performance in Kenya's SMEs had a strong positive and significant association, as well as a positive and significant relationship. According to the findings, great performance is attained when a leader appreciates employees' efforts, instills confidence, encourages self-development, effective communication, and mentorship and coaching. In addition, Girardi et al. (2021) found that employees in financial institutions in Brazil perceived their leaders as transformational agents, who inspire, encourage, consider, and motivate them.

Intellectual Stimulation. It entails stimulating followers' abilities to detect and solve problems creatively, as well as igniting their thoughts and imagination (Breaux, 2010). People admire leaders who pique their interest, challenge them to reflect and learn, and encourage an openness to novel, innovative concepts, and options. Using structural equation model analysis, Cardona et al. (2018) found that intellectual stimulation had a significant association with team positive effects in Spain. The results showed that intellectual stimulation is a crucial social resource for teams that promotes team learning.

Inspirational Motivation. There are two main components to inspire motivation (Ray, 2020). First and foremost, a leader must be very clear about his or her goals. Second, a

leader must communicate his or her vision in a way that inspires and motivates others to achieve better levels of performance. Nyakomitta et al. (2018) adopted a mixed research design to investigate the influence of inspiration motivation on performance in all tier 1 commercial banks in Kenya. The regression results revealed that inspirational motivation influences the performance of banks by 0.779 units. According to the findings, bank leaders should encourage managers and staff to use actions related with inspirational motivation to improve the organization's performance. These characteristics include communicating the organization's vision with clarity, inspiring motivation, and boosting team spirit. Managers can also support inspirational motivation behaviors among their followers, which boost a leader's effectiveness in achieving superior performance.

Idealized Influence. A transformational leader sets an example of excellent ethical behavior, inspires pride, and earns respect and trust (Kittikunchotiwut, 2020). Using a correlation analysis, Njiraini et al. (2018) discovered that idealized influence was positively and significantly correlated with job satisfaction.

Risk-Based Pricing Model

Risk-based pricing model is a loan pricing strategy that considers the borrower's creditworthiness to determine the loan price (Staten, 2014). The lenders estimate the costs involved in lending to each borrower. The price will be low or high depending on the probability of default of a particular borrower. Consequently, high-risk borrowers pay a higher interest than low-risk borrowers do for the same type of loan. The success of risk-based pricing model depends on credit reports and scores from CRBs (Kagan et al., 2020). Credit scores provide a more accurate estimation of default risks that lenders can use to determine loan prices. CRBs collate all loan repayment histories from all lenders on a borrower (Kagan et al., 2020). They use that to generate a credit report. The report also indicates the credit score of every particular customer which lenders can then use to make

decisions about lending to that borrower. Banks also consider internal consumer profiles built over time based on a borrower's borrowing history with the banks. Borrower interest rates should, in theory, reflect their default risk (Chatterjee et al., 2007; Geanakoplos, 2002); this has a positive impact on lender profitability and borrowers' access to credit.

Berger et al. (2019) outlined some benefits of risk-based pricing model. In order to prevent losses that could result in bank failures, the old arbitrage pricing model restricts banks and other financial institutions to low-risk borrowers. However, risk-based pricing model helps lenders to minimize their costs while serving both high-risk borrowers who would ordinarily be denied credit and locked out of economic activities and low-risk customers who would ordinarily get loans. Risk-based pricing is fair to all customers, including borrowers from marginalized communities. Lenders consider the credit scores of borrowers instead of their personal data when making decisions. Customers are encouraged to improve their credit scores in order to qualify for lower-interest loans in the future. In addition, the model has national benefits because increased lending increases economic activities and lowers interest rates for business owners (CCCM, 2021).

Risk management tools and systems are necessary for commercial banks to adopt risk-based pricing model effectively and profitably. A change is necessary in the reporting systems, risk-rating systems, and loan approval processes (Othieno & Kariuki, 2017). The banking sector in Kenya has continued to use old pricing model (arbitrage pricing) despite existence of credible CRBs in the country since 2010. The US has adopted a risk-based pricing model to serve minority groups and low-income earners. The majority of low-income earners have a low credit score that disqualifies them from accessing loans. However, risk-based pricing enables US banks to serve such borrowers and charge them higher interest rates because of the high default risk (Pham and Donovan, 2021; Staten, 2014). In the African context, limited information exists on risk-based pricing model.

Theoretical Framework

The study is based on Burn's (1978) transformational leadership theory and Arbitrage pricing theory (APT) by Ross (1976).

Transformational Leadership Theory

According to Burns (1978), leaders and followers motivate each other to achieve the required level of performance. To do this, he emphasizes the importance of transformational leaders in creating a vision that defines the future course of the organization, as well as engaging and motivating followers to achieve the set goals. He underscores the need for developing and implementing defined operational strategies in such projects to help achieve the intended vision. Goal articulation, role modeling, image modeling, high expectations, and trust in one's followers are five behaviors that transformational leaders exhibit in order to achieve amazing results in extremely difficult conditions (Okanga & Drotskie, 2019). According to Burns (1978), transformational leadership style is mutually exclusive as transformational leaders can attempt to change the culture.

Burns (1978) asserts that a leader's influence over his followers is the primary factor in evaluating whether or not he is transformational. Because of the traits of the transformational leader, the followers have faith in, admiration for, devotion to, and respect for the leader, and they are willing to work harder than expected. These advantages result from the fact that a transformational leader gives their followers more than just a means of making money; they also provide them an exciting mission and vision as well as a sense of community. The leader transforms and motivates followers through his or her idealized influence, intellectual stimulation, and personal concern (Burns, 2010; Mittal, 2015). Followers are encouraged to come up with fresh and creative ways to question the status quo and change the environment in order to support success. Therefore, transformational leaders

inspire "a relationship of mutual stimulation and elevation that converts followers into leaders and may convert leaders into moral agents," on account of their actions.

The theory provided a framework for understanding how leaders can influence and drive the successful implementation of a risk-based pricing model in commercial banks within Nairobi County. By adopting transformational leadership behaviors, leaders can inspire, motivate, and empower their employees, fostering a culture of innovation, commitment, and adaptability, which are crucial for effectively implementing and leveraging the benefits of a risk-based pricing approach.

This study was therefore based on this theory as it expected that bank leaders would adopt this kind of leadership style in order to achieve banks' vision and goals as they seek to implement risk-based pricing model. It is also expected that bank employees who are under a transformational bank leader are not only committed to achieve their targets but are also enthusiastic about their jobs and easily embrace innovation and change.

Arbitrage Pricing Theory (APT)

Arbitrage pricing theory (APT) is a multi-factor asset pricing model that assumes an asset's returns can be anticipated using a linear relationship between the asset's expected return and a set of macroeconomic factors that reflect systemic risk (Ross, 1976). Many of these macroeconomic factors cannot be predicted due to their nature. For example, a bank may not know the likelihood of rain failing or climate change when lending to a farmer, yet this is a major risk in that lending. APT becomes a valuable tool for assessing portfolios from the standpoint of value investing, in order to spot commercial bank loans that are momentarily mispriced.

Arbitrage pricing theory (APT) aims to explain how expected returns and the underlying systemic risk factors relate to one another. It incorporates risk into pricing by

taking into account various risk factors, such as inflation and slowed economic growth, which have an impact on an asset's expected returns. The model calculates the investment's required rate of return using this data, and then uses that number to determine the investment's fair price. The difference between APT and risk-based pricing model is that with advancement in technology, the systemic risks that were unpredictable under APT have become predictable now and a bank is certain that a certain risk will crystallize on its asset and hence able to price that asset more accurately under risk-based pricing than under APT hence the demand that commercial banks move from the old APT model to risk-based pricing model.

The APT is simplistically expressed as:

$$E(Ri) = \beta1F1 + \beta2F2 + \beta3F3 + ... + \beta nFn + \alpha$$

Where:

E(Ri) = expected return on asset i

βj = sensitivity of asset i to factor j

Fj = macroeconomic factor j (e.g., inflation, GDP)

α = asset-specific return not explained by the macroeconomic factors

The coefficients βj can be estimated using regression analysis, and the value of α represents the residual return not explained by the macroeconomic factors. The APT model assumes that the expected return of an asset can be explained by linear combinations of macroeconomic factors, and that any anomalies in the return can be attributed to the residual term α. In simpler terms, the expected return of an asset can be predicted by considering how it is affected by different financial factors and how much each factor contributes to the return, along with a measure of unpredictable factors.

APT states a linear relationship between bank loans' expected returns and their covariance with other random variables (Huberman and Wang, 2005). Covariance is seen as a

measure of risk that commercial banks cannot mitigate through diversification. The risk premium is defined as the slope coefficient in the linear relationship between expected returns and covariance.

The arbitrage pricing theory acknowledges that only a few systematic factors influence the long-term average return of financial assets. The impact of these components on portfolio performance can be estimated if they can be identified. With this insight, the structure and performance of financial assets can be improved. In essence, the performance of financial assets is determined by both predictable and unpredictable factors. Predictable events may be incorporated into pricing model, however unpredictable circumstances are harder to foresee in terms of scale and trajectory and hence a uniform margin has to be incorporated to cover for the unpredictable risk. By examining the relationship between expected returns, risk, and the impact of leadership on risk appetite, risk perception, and organizational culture, the APT can provide a framework for understanding the influence of transformational leadership on risk-based pricing model.

The relevance of this theory to this study was that with technological advancement today, banks are able to predict what was unpredictable a few years ago and hence pricing model today are more accurate, predictive and reliable hence the need for banks to abandon the old APT model and adopt risk-based pricing model, aided by technological advancements such as block-chain. Zhang et al. (2020), found out that blockchain technology can be used to confirm ownership of data, integration of data, enhanced data security, protection of personal information and more especially in credit reference.

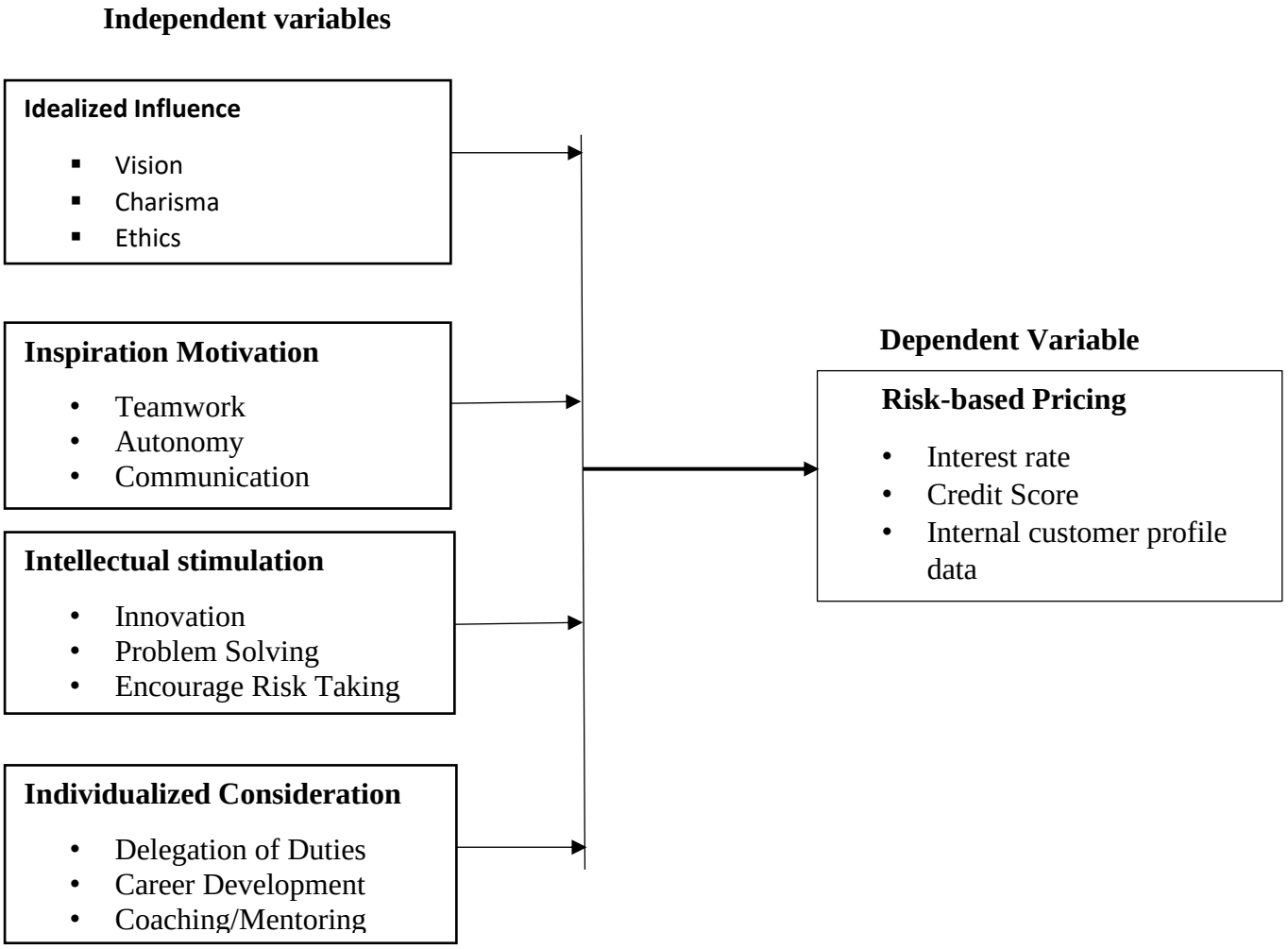
Conceptual Framework

The conceptual model in the figure below depicts how independent and dependent variables interact and influence one another. This study sought to establish the impact of

transformational leadership on risk-based pricing model. The dependent variable in this study was risk-based pricing whose measure were: customer's credit score, internal customer profile data and interest rates applied by commercial banks while the independent variable is transformational leadership. The transformational leadership dimensions were idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration.

Figure 2.1

Conceptual Model



Source: Author (2023)

Summary of Knowledge Gaps

In the United States not-for-profit credit unions, Walke et al. (2018) sought to determine if risk-based loan pricing increased loan availability, particularly for high-risk borrowers. The findings indicated that risk-based pricing adopters increased loan availability compared to non-adopters. However, average risk levels, as measured by delinquency rates, appeared to be slightly lower for risk-based pricing adopters when compared to matched non-adopters. The implication was that lending increased primarily for low-risk borrowers, in contrast to claims that risk-based pricing primarily benefits high-risk borrowers who would otherwise be denied credit. However, the study did not reveal the impact of transformational leadership on commercial banks' risk-based pricing model. The purpose of this research was to determine the impact of transformational leadership on the risk-based pricing model used by commercial banks within Nairobi County.

In Jeddah, Saudi Arabia, Zia (2015) investigated transformational leadership perceptions among banking employees. According to the findings, the bank executives had not demonstrated transformational leadership. Employees believed that their managers did not support them, did not present a vision to them, did not encourage creative thinking, and did not try to communicate with them. As a result, the purpose of this research was to determine the role of transformation leadership on risk-based pricing model in commercial banks within Nairobi County.

In Italy, Magri (2019) investigated whether the prices of consumer loans, such as loans to buy cars, furniture, or for other unspecified purposes, were based on the borrower's specific risk. The study discovered that between 2010 and 2012, the pricing of consumer loans was primarily correlated with household economic and financial conditions, primarily net wealth, but also the number of income earners and the education of the household head as a representation for his future income. The study, however, failed to reveal the role of

transformational leadership on commercial banks' risk-based pricing model. This study aimed to find out what impact transformational leadership has on risk-based pricing model by commercial banks within Nairobi County

Islam et al. (2020), conducted a study in Bangladesh banking sector to examine the influence of transformational leadership on employee championing behavior and tested the role of trust in leadership as a mediating factor between transformational leadership and championing behavior in the context of organizational change. The study's findings revealed that transformational leadership had a significant impact on employee trust in leadership and championing behavior during organizational change. The study, however, did not reveal the impact of transformational leadership on risk-based pricing model by commercial banks. The focus of this research was to investigate the influence of transformational leadership on risk-based pricing model in commercial banks within Nairobi County

Kittikunchotiwut (2020) investigated the relationship between transformational leadership, learning orientation, firm innovativeness and financial performance among SMEs in Thailand using structural equation modelling. This study focused on general role of transformational leadership in institutions. The study revealed a positive indirect relationship between transformational leadership and financial performance, with firm innovativeness acting as a mediating factor. It did not disintegrate the elements of transformational leadership and look at their individual role in an organization. This proposed study, therefore, sought to fill this gap by looking at the different elements of transformational leadership and their influence on risk-based pricing model in commercial banks within Nairobi County

Transformational leadership approaches have long been championed as fruitful, where research suggests that transformative techniques assist development of capacity and commitment (Seyal, 2015). A study by Waal and Ravesteijn (2018) revealed a positive association between leadership styles and personnel commitment of selected private

organizations in Nigeria. The study further suggested that private organizations should adopt leadership styles such as transformational leadership to enhance personnel commitment for higher performance. However, no study has been done to ascertain what influence transformational leadership has on risk-based pricing model by commercial banks. As a result, the purpose of this research was to determine how transformational leadership affects commercial banks' risk-based pricing model within Nairobi County.

In Kenya, transformational leadership has been linked to higher employee performance in banks and other organizations (Nyamota, 2020). Transformational leadership has also been associated with higher levels of performance and effectiveness in the banking sector (Kirui, 2017). The study found out that idealized influence, inspirational motivation, intellectual stimulation and individual consideration positively influenced organizational performance. However, researchers have not studied the role of transformational leadership on risk-based pricing in Kenya's banking sector. This study therefore sought to investigate what influence transformational leadership has on risk-based pricing model by commercial banks within Nairobi County.

According to Bett and Wepukhulu, (2019) risk-based pricing model implementation in Kenya is still in its infancy, with most commercial banks in the process of developing their model for approval by the Regulator. Because risk-based systems have only been in place in Kenya for a short time, the few local studies on the subject have been inconclusive. There have been no published studies on the impact of transformational leadership on risk-based pricing model. As a result, the purpose of this research is to determine the impact of transformational leadership on Kenya commercial banks' risk-based pricing model within Nairobi County.

Table 2.1

Summary of Previous Studies and Knowledge Gaps

Author and Year	**Study Focus**	**Key Findings**	**Knowledge Gaps**	**Focus of the Current Study**
Walke, Fullerton, and Tokle (2018)	Risk-based loan pricing strategy and increased loan availability for high-risk borrowers in the United States not-for-profit credit unions	The study revealed that risk-based pricing adopters increased loan availability compared to non-adopters	The study failed to reveal the impact of transformational leadership on commercial banks' risk-based pricing model	The current study focused on the impact of transformational leadership on the risk-based pricing model used by commercial banks within Nairobi County.
Zia (2015)	Transformational leadership perceptions among banking employees in Jeddah, Saudi Arabia	The study found out that bank executives had not demonstrated transformational leadership	The study did not reveal the impact of transformational leadership on commercial banks' risk-based pricing model	The study purposed to determine the impact of transformational leadership on the risk-based pricing model used by commercial banks within Nairobi County.
Magri (2019	Whether the prices of consumer loans, such as loans to buy cars, furniture, or for other unspecified purposes, were based on the borrower's specific risk in Italy	The study discovered that between 2010 and 2012, the pricing of consumer loans was primarily correlated with household economic and financial conditions, the number of income earners and the education of the household	The study, however, failed to reveal the role of transformational leadership on commercial banks' risk-based pricing model	The current study aimed at finding out what impact transformational leadership has on risk-based pricing model by commercial banks within Nairobi County

Islam (2020)	The role of trust in leadership as a mediating factor between transformational leadership and championing behavior in the context of organizational change in Bangladesh	The study's findings revealed that transformational leadership had a significant impact on employee trust in leadership and championing behavior during organizational change	The study, however, did not reveal the impact of transformational leadership on risk-based pricing model by commercial banks	The focus of this research was to investigate the influence of transformational leadership on risk-based pricing model in commercial banks within Nairobi County
Kittikunchotiwut (2020)	The relationship between transformational leadership, learning orientation, firm innovativeness and financial performance among SMEs in Thailand	The study revealed a positive indirect relationship between transformational leadership and financial performance, with firm innovativeness acting as a mediating factor.	The study did not disintegrate the elements of transformational leadership and look at their individual role in an organization	This current study sought to fill this gap by looking at the different elements of transformational leadership and their influence on risk-based pricing model in commercial banks within Nairobi County
Waal and Ravesteijn (2018)	The relationship between leadership styles and personnel commitment of selected private organizations in Nigeria.	The study revealed a positive association between leadership styles and personnel commitment	Despite the suggestion from the study that private organizations should adopt leadership styles such as transformational leadership to enhance personnel commitment for higher performance, no study has been done to ascertain what influence	This study sought to determine how transformational leadership affects commercial banks' risk-based pricing model within Nairobi County

			transformational leadership has on risk-based pricing model by commercial banks.	
Kirui (2017) and Nyamota (2020)	Transformational leadership and organizational performance in banks and other organizations in Kenya	The studies found out that transformational leadership elements positively influenced organizational performance.	The studies did not reveal role of transformational leadership on risk-based pricing in Kenya's banking sector.	The current study therefore seeks to investigate what influence transformational leadership has on risk-based pricing model by commercial banks within Nairobi County.
Bett and Wepukhulu, (2019)	Risk-based pricing model implementation in Kenya	The study revealed that risk-based pricing model implementation in Kenya is still in its infancy, with most commercial banks in the process of developing their model for approval by the Regulator.	Because risk-based systems have only been in place in Kenya for a short time, the few local studies on the subject have been inconclusive. There have been no published studies on the impact of transformational leadership on risk-based pricing model.	The current study sought to determine the impact of transformational leadership on Kenya commercial banks' risk-based pricing model within Nairobi County.

Source: Author, (2023)

Chapter Summary

The literature on the research variables has been provided for in this chapter. The two variables, transformational leadership and risk-based pricing have been discussed. The theoretical framework was then presented. The conceptual framework, which explains how the independent and dependent variables were related to one another, was also illustrated.

Chapter Three: Research Methodology

This chapter explains the methods that were used to conduct this investigation. The research philosophy, cross-section descriptive research design, study site, target population, sampling techniques, and research tools are all covered in depth in this chapter. It also explains the validity and reliability of instruments, as well as the data collection and processing methods. Finally, the chapter discusses the ethical implications of the study.

Research Philosophy

The positivistic research philosophy guided the study, which states that only factual knowledge gained through measurement and observation can be trusted. According to Collins (2010), positivism is based on quantifiable observations that lead to statistical analysis. Positivism is a philosophy of research that holds that the world is objective, and that the truth can be discovered through systematic and empirical observation and analysis (Collis & Hussey, 2010). This approach was appropriate for the study because it allowed for the quantitative testing of the relationship between transformational leadership and risk-based pricing model, drawing conclusions based on data collected through a survey of commercial bank managers within Nairobi County. The positivist approach allowed the researcher to collect objective data and make empirical generalizations about the relationship between transformational leadership and risk-based pricing model in commercial banks in Nairobi County, thereby advancing the researcher's scientific understanding of this topic.

Research Design

A research design is the logical conceptual structure with which research is conducted (Cooper, 2014). It is the blueprint for the collection, measurement, and analysis of data. The research design provides an appropriate framework or structure to guide the execution and analysis of data gathered through the research method (Sileyew, 2019). This is a type of

inquiry that uses qualitative, quantitative, and mixed methods to provide researchers with a specific direction for research design processes (Ishtiaq, 2019). This study adopted a cross-sectional descriptive research design. A descriptive design aimed at describing and quantifying the current status of the phenomena that was being studied without manipulating the variables. This design helped to gather detailed information about the relationship between transformational leadership and risk-based model by commercial banks within Nairobi County. A sample of selected commercial banks in Nairobi County were utilized to investigate the influence of transformational leadership on risk-based pricing model.

Target Population

The target population is the group of people on whom the researcher conducts research and draws conclusions (Banerjee & Chaudhury, 2010). The target population of this study comprised of 564 commercial bank branches operating within Nairobi County. From this population, credit managers were selected as research subjects due to their expertise and knowledge in credit matters. To ensure a representative sample, the researcher identified key components of the population and randomly selected credit managers from these components. The selected credit managers then provided the relevant data required for the study.

Sampling Technique and Sample Size

Sampling techniques refer to the tactics and methods used by researchers in the statistical sampling process (Taherdoost, 2016). In Kenya, there are 39 commercial banks with a total population of 564 bank branches in Nairobi County (Faria, 2022). Because all 564 banks provide financial services and are homogeneous, managers from all these bank branches were considered for the study. The study focused on credit managers in these branches as they are the critical implementers of the loan pricing model. The commercial

banks fall under three categories: Tier 1, Tier 2 and Tier 3 (Faria, 2022). The sample size was determined using a formula proposed by Yamane as shown below (Yamane, 1967):

$$n = \frac{N}{1 + N(e)^2}$$

Where n, N, and *e* represent sample size, study population (564), and margin of error (5%) respectively.

The above equation was substituted to estimate the sample size (n) as illustrated below:

$$n = \frac{564}{1 + 564(0.05)^2}$$

n = 234.0249

n ≈ 234 respondents

The utilization of a stratified sampling technique was deemed appropriate in this study, as it effectively ensures the representation of each stratum within the sample and assists in mitigating potential sampling bias. Specifically, within Nairobi County, there exist 564 commercial bank branches categorized into three tiers: Tier 1, Tier 2, and Tier 3. In order to organize the population into distinct and comprehensive strata, the researcher classified the bank branches based on their respective tiers. Following this classification, the researcher proceeded to determine the sample size for each stratum. This determination was made in proportion to the size of each stratum within the population, with the overall desired sample size set at 234 units. The calculations employed aimed to maintain proportional representation of each stratum within the final sample and as illustrated below.

Stratum sample size = $\frac{n}{N} * s$, where n = study's sample size, N = population size and s = stratum size.

According to the Bank Supervision Annual Report 2021 (Appendix III), Nairobi County had 305 tier 1, 105 tier 2, and 154 tier 3 commercial bank branches. The sample size of each stratum was determined as per the table below.

Table 3.1

Sample Size Distribution and Determination for each Stratum

Bank Tier	Stratum size	Stratum sample size determination	Stratum sample size
Tier 1	305	$\frac{234}{564} * 305 = 126.54$	126
Tier 2	105	$\frac{234}{564} * 105 = 43.56$	44
Tier 3	154	$\frac{234}{564} * 154 = 63.89$	64
Total	**564**	**233.99**	**234**

Source: Author, (2023)

Data Collection Instrument and Procedures

Data collection instrument and procedures are electronic or paper tools that researchers use to collect data during the research process (H. R. & Aithal, 2022). The questionnaire was the primary data collection tool in this investigation. A questionnaire is a type of data collection tool that includes research-related questions. The questionnaire utilized in this study predominantly consisted of closed-ended questions, with the remaining sections employing Likert scale response options. The determined sample size allowed for the distribution of the questionnaire among participants. To ensure the study's validity and reliability, it was imperative to maintain consistency in the questionnaires administered. Consequently, the researcher developed a standardized questionnaire encompassing pertinent

aspects related to transformational leadership and risk-based pricing model applied by commercial banks within Nairobi County. Subsequently, ethical approval was sought from the PAC Graduate School and NACOSTI prior to initiating the questionnaire testing phase. After fine-tuning the questionnaire, the researcher duplicated and distributed it online to 234 respondents as a Google form accessible via URL. The distribution of the questionnaire via an online platform allowed for efficient data collection, as the researcher received timely email notifications whenever a participant submitted their responses. By employing such a comprehensive and systematic approach to data collection, the researcher aimed to maintain the study's integrity and obtain reliable data for analysis and interpretation.

Table 3.2

Operationalization of the Study Variable

Variable	**Operational Definition**	**Indicators**	**Scale of Measurement in Questionnaire**
Risk-Based Pricing	A credit scoring algorithm that uses a customer's loan payback history, data from licensed credit reference bureaus, and internal credit research to price a loan depending on a customer's specific credit score	• Interest Rates • Credit Score • Internal Customer Profile Data	Nominal scale Section C of the questionnaire on a scale 1 to 5.
Idealized Influence	A leadership style that includes acts that make followers feel proud to be connected with the leader	• Vision • Charisma • Ethics	Nominal scale Section B, (i) of the questionnaire on a scale 1 to 5.
Intellectual Stimulation	A leader's willingness to question assumptions, take chances, and elicit feedback from his or her followers	• Innovation • Problem Solving • Encourage Risk Taking	Nominal scale Section B, (ii) of the questionnaire on a scale 1 to 5.
Inspirational Motivation	The extent to which the leader articulates an appealing and inspirational vision for his or her followers	• Teamwork • Autonomy • Communication	Nominal scale Section B, (iii) of the questionnaire on a scale 1 to 5.
Individualized Consideration	The extent to which the leader pays attention to the needs of each follower, acts as a mentor or coach to the follower, and listens to the follower's problems and requirements	• Delegation of Duties • Career Development • Coaching/Mentoring	Nominal scale Section B, (iv) of the questionnaire on a scale 1 to 5.

Source: Author, (2023)

Pre-testing of Questionnaires

Pre-testing, an essential research tool, evaluates respondents' understanding and interpretation of survey questions (Li et al., 2021). To adhere to recommended practices, the pre-test in this study involved operational managers from four out of the six banks that had partially adopted the loan pricing model, as confirmed by the Banking Sector Market Share 2021 (Appendix IV). This choice ensured similarity between the pre-test population and the target respondents, who were credit managers.

Randomly selected operational managers from the branches of the four banks participated in the pre-testing, considering their geographical spread across Nairobi. Determining the sample size for a pre-test is not strictly prescribed (Kumar et al., 2015). The researcher argued that a sample size of 10-25 participants is appropriate. In line with this recommendation, a random sample of 10 operational managers was selected for phone interviews. The phone interviews were chosen because of their efficiency and cost-effectiveness. Notably, the results of the pre-test were not included in the final analysis of the study. Conducting the pre-test allowed the researcher to identify any challenges or issues that respondents might encounter while understanding and interpreting the survey questions. Based on the feedback received, the questionnaire was refined and enhanced to ensure clarity and comprehensibility. The pre-testing phase played a crucial role in refining and enhancing the questionnaire before its administration to the actual study respondents, the credit managers.

Validity of the Research Instrument

As outlined by Kimberlin and Winterstein (2008), a valid tool is one that effectively measures the specific constructs it intends to assess. In this study, the content and construct validity of the questionnaire were carefully evaluated with involvement of university

supervisors. Their expertise was instrumental in ensuring that the questionnaire adequately covered all the essential aspects related to the research topic, specifically transformational leadership and the risk-based pricing model. This rigorous assessment aimed to confirm that the instrument was capable of measuring the intended constructs accurately. In addition to content and construct validity, criterion-related validity testing was also conducted. This process involved comparing the results obtained from the questionnaire with a known criterion, such as previous research findings or expert opinions. By establishing a relationship between the questionnaire's outcomes and an established criterion, the researcher was able to validate further the instrument's effectiveness in measuring the targeted constructs.

Reliability of the Research Instrument

Reliability of research instrument was essential to ensure consistent and dependable results. In this study, the reliability of the questionnaire was assessed using the Cronbach's alpha coefficient. This coefficient is particularly suitable for evaluating the reliability of instruments that collect data on a Likert scale. To determine the reliability of the questionnaire, the Cronbach's alpha coefficient was computed. It is generally considered acceptable for the alpha coefficient to be 0.7 or higher (Singh, 2017). This criterion serves as a benchmark to determine if the instrument demonstrates adequate internal consistency and reliability. By calculating the Cronbach's alpha coefficient, the researcher was able to assess the extent to which the questionnaire items within each construct were interrelated and consistently measured the intended concepts.

Table 3.3 presents Cronbach’s Alpha statistics for the variables of idealized influence, inspirational motivation, intellectual stimulation, individualized consideration, and risk-based pricing in both the pilot study and the main study. The results indicate that all variables exhibited Cronbach's Alpha values exceeding 0.7, indicating a high level of internal consistency and reliability for both the pilot and the main study. The Cronbach's Alpha values

obtained were 0.808 for the pilot study and 0.758 for the main study, demonstrating that the items within each variable were strongly correlated and measured the same underlying construct consistently. These findings provide confidence in the reliability of the measurement scales used in assessing the variables of interest.

Table 3.3

Reliability Statistics

Variable	N of Items	Pilot Study	Main Study	Remarks
Idealized Influence	5	0.765	0.723	Reliable
Inspirational motivation	6	0.819	0.779	Reliable
Intellectual Stimulation	5	0.755	0.719	Reliable
Individualized Consideration	7	0.794	0.746	Reliable
Risk-based pricing	14	0.907	0.825	Reliable
Overall Cronbach's Alpha	37	0.808	0.758	Reliable

Source: Research Data, (2023)

Diagnostic Test

Testing for Normality

In statistical analysis, it is important to ensure that samples are drawn from identical distributions, which often involves testing for normality. Normality testing assumes that the target populations from which the samples are drawn follow a normal distribution (Tsagris & Pandis, 2021). Commonly adopted methods for normality testing include the Anderson-Darling test, Shapiro-Wilk test, and Kolmogorov-Smirnov test, among others. In this study, the Shapiro-Wilk test was used. The test assumes the null hypothesis that the population is normally distributed, and a p-value exceeding 0.05 ($p > 0.05$) suggests a sample with a normal distribution, while a p-value below 0.05 suggests a deviation from normality (M & Kamel B, 2016).

Testing for Linearity

This study assumed a linear relationship between the independent variable (predictor) and the dependent variable (outcome). The strength and direction of this linear relationship were measured using the Pearson correlation coefficient method (Schober et al., 2018). The Pearson correlation coefficient provides a measure of the extent to which a change in one *variable is associated with a change in another variable, indicating a monotonic relationship.* Significance values play a crucial role in assessing the linear relationship, where a significance value less than 0.05 indicates statistical significance and supports the presence of a linear relationship between the variables (Mohajeri et al., 2020).

Testing for Multicollinearity

Multicollinearity refers to the correlation between two or more independent variables in a regression model. In this study, the presence and extent of multicollinearity among the predictors were assessed using the Variance Inflation Factors (VIF) tool, calculated using the SPSS software. The VIF quantifies the degree of multicollinearity by measuring the variance inflation between the predictors. A VIF value of 1 indicates no correlation between the independent variables, suggesting no multicollinearity. Values greater than 1 suggest some level of correlation among the predictors. Typically, a VIF value exceeding 10 is considered indicative of severe multicollinearity (Daoud, 2017).

Data Analysis

Data analysis refers to the process of cleaning, transforming, modeling, and examining data to uncover valuable patterns, information, or to draw meaningful conclusions for decision-making purposes (Kenny et al., 2020). In this study, the data analysis was conducted using SPSS version 25 statistical software. After collecting the raw data, the questionnaires were coded into numerical values using the SPSS software. This coding

process allowed for easier manipulation and analysis of the data. SPSS was then utilized to clean the data by identifying and handling any missing or inconsistent values.

Furthermore, the software facilitated generation of descriptive statistics, such as means, frequencies, and standard deviations. These statistics provided a concise summary of the collected data, allowing for a better understanding of the participants' responses. As suggested by Hoeks et al. (2013), simple descriptive statistics like percentages are effective in communicating results to a broad range of readers. In addition to descriptive statistics, inferential statistical methods were employed using the SPSS software. Pearson correlation analysis was conducted to examine the relationships and measure the strength and direction of associations between dependent and independent variables. Regression analysis, another inferential technique, was utilized to explore the predictive relationships between variables.

Correlation analysis, according to Gogtay et al. (2017), is a statistical test that determines whether there is statistical evidence for a linear relationship between the same pairs of variables in the population, as represented by a population correlation coefficient, ("rho"). It accepts values ranging from negative one (-1) to positive one (+1). The magnitude of the correlation (how close it is to -1 or +1) indicates the strength of the relationship, while the sign of the correlation coefficient indicates the direction of the relationship. The greater the distance between -1 and 1, or the closer it is to zero, the weaker the relationship, and vice versa. Linear regression analysis was also run to establish the effects of the study’s independent variable on the dependent variable. Pearson correlation was an appropriate choice in this context because it allowed for the examination of the relationship between continuous variables and provided valuable insights into the influence of transformational leadership on commercial banks' risk-based pricing model.

Linear regression analysis according to Montgomery et al., (2021), is a statistical test that is used to produce an equation that will be used to predict a dependent variable using one or more independent variables.

The regression equation was of the form:

$$\mathbf{Y = \beta o + \beta_1 X_1 + \beta_2 X_2 \ldots + \beta n Xn + \sum_x}$$

Where:

Y = dependent variable (Risk-based-pricing) measured using the questions posted in the questionnaire

βo = Constant/the interception point of the regression line and the y-axis.

$\beta_1, \beta_2 \ldots \beta_n$ = Coefficients of the independent variables that will be determined

$X_1, X_2 \ldots X_n$ = Explanatory/predictor/independent variables measured using questions posted in the questionnaire

X_1 = Idealized influence

X_2 = Inspiration motivation

X_3 = Intellectual consideration

X_4 = Individual consideration

$\sum_x$ = Disturbance/error term

Ethical Considerations

In order to adhere to ethical guidelines, the researcher meticulously ensured that all information attributed to another author in the study was appropriately cited using the relevant procedures. Further, to ensure ethical standards were met, the researcher presented the proposal to the review board of the PAC Graduate School for thorough evaluation and approval. Finally, research authorization from the National Council for Science, Technology, and Innovation (NACOSTI) was sought and obtained. Subsequently, the researcher obtained explicit consent from the participants, emphasizing the privacy and confidentiality of the

information they provided. The collected data was securely stored in a password-protected laptop, ensuring that unauthorized third parties had no access to it. Additionally, the researcher obtained voluntary and informed consent from the respondents, allowing them to withdraw their participation at any time and for any reason.

Chapter Summary

This chapter outlines the researcher's chosen approach for conducting the research. It begins by providing an overview of the research design and philosophy, namely a cross-sectional descriptive research design coupled with a positivistic research philosophy. The chapter further delves into the discussion of the target population and sample size. Specifically, the target population consists of bank managers from all three bank tiers in Nairobi, Kenya, and a stratified random sample which was selected from this group. Additionally, the chapter examines the data gathering techniques and tools employed in the study, highlighting the questionnaire as the primary data collection instrument. The questions included in the questionnaire were derived from research objectives and aim to elicit meaningful responses from the participants.

Chapter Four: Results and Discussion

This chapter presents analysis of the collected data, interpretation, and the presentation of the research findings so as to make meaningful deductions. Presentation of results was consistent with the objectives of the study and the conceptual framework. The analysis comprised of descriptive and inferential statistics. The findings were presented using tables, graphs, and charts.

Response rate

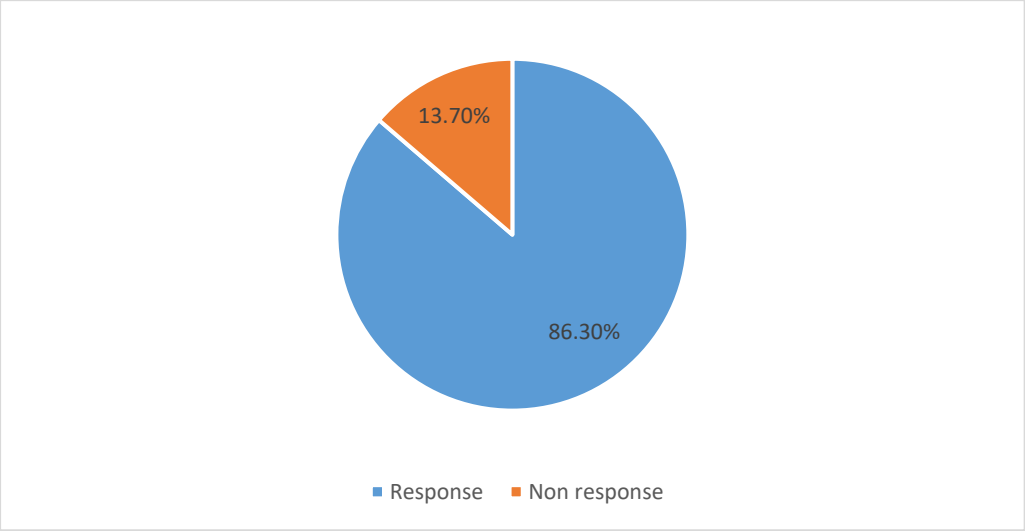
The initial stage in data analysis was to determine the response rate. The questionnaires were distributed online, with only one submission permitted per respondent. Out of the 234 online questionnaires distributed, 203 participants responded. According to (Mugenda & Mugenda , 2003), a response rate of 60% or more is considered satisfactory and can be utilized for analysis. Since the study targeted 234 respondents, a response rate of 86.8% was achieved as illustrated in figure 4.1 below.

The study was able to achieve a high response rate of 86.8% for several reasons. One of the main factors contributing to this high response rate was the use of online questionnaires distributed through platforms like Google Forms. By opting for an online survey format, participants were able to conveniently access and complete the questionnaire at their own convenience. This eliminated the need for face-to-face interactions or physical paperwork, making the process more accessible and user-friendly. Moreover, the online format also provided participants with anonymity and confidentiality, which was crucial in encouraging honest and genuine responses. Participants felt more comfortable sharing their thoughts and opinions knowing that their identities were protected. Additionally, the online distribution method allowed for a wider reach and greater accessibility. Participants could access the questionnaire from various locations, eliminating geographical constraints. This,

coupled with the flexibility of completing the questionnaire at their own pace, reduced time constraints and further increased participation rates. Finally, the relevance of the study topic, effective communication of the research objectives, and potential incentives for participation all played a role in motivating individuals to respond.

Figure 4.1

Response Rate



Source: Research Data, (2023)

Demographic Characteristics

The study sought general information about respondents in order to determine their eligibility to participate in the study. The subsections that follow provide essential information about the respondents' demographic characteristics.

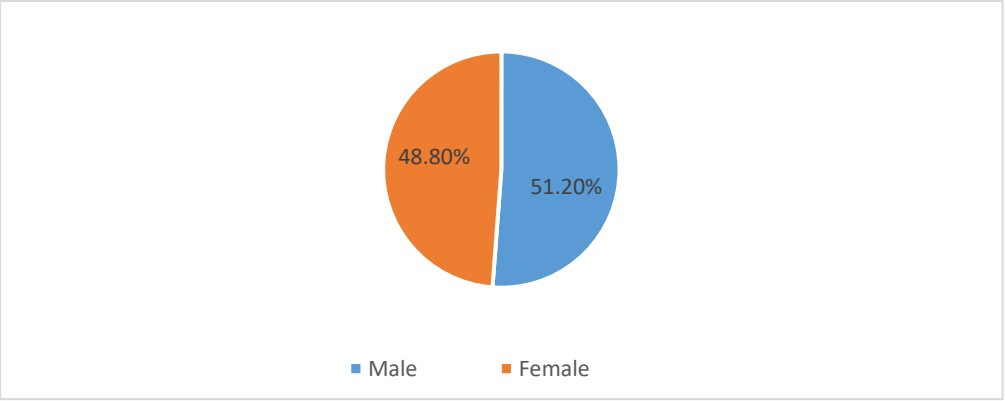
Gender of the Respondents

The findings presented in Figure 4.2 reveal an almost equal distribution of gender among the study's participants, with males accounting for 51.2% and females accounting for 48.8% of the total sample. This distribution suggests that there is a balanced representation of

gender within the banking industry, indicating that both males and females have relatively equal opportunities for employment and advancement in this sector. The near 50/50 gender distribution is an important observation as it signifies a level of gender equality within the banking industry. This finding aligns with the global push for gender diversity and equal representation in various sectors, including finance. It indicates that efforts to promote gender inclusivity in the workplace, such as initiatives focused on eliminating gender biases and providing equal opportunities for career growth, may be having a positive impact in the banking industry. The banking sector has historically been perceived as male-dominated, with fewer women occupying leadership positions. However, the almost equal distribution of gender observed in this study suggests a shift towards a more balanced workforce composition. It implies that the industry has made strides in promoting diversity and creating an inclusive environment that encourages both men and women to pursue careers in banking.

Figure 4.2

Respondents Gender



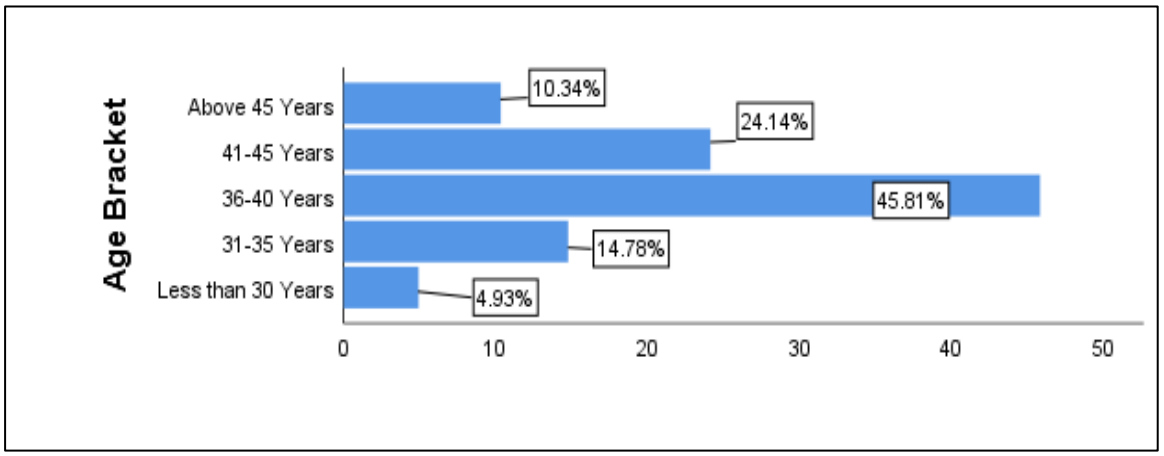
Source: Research Data, (2023)

Respondents Age

As shown in Figure 5 below, a significant proportion of the research participants, 45.8%, were between the ages of 36 and 40. This was followed by those aged 41-45 years, who made up 24.4% of the participants. Those aged between 31 to 35 years were 30 representing 14.78% while those aged above 45 years accounted for 10.34%. Notably, a small proportion of the participants belonged to the age group below 30 years accounting for 4.93%. Individuals within the age range of 36 to 40 years often have the experience and expertise necessary for middle management positions, which aligns with the responsibilities of credit managers. Furthermore, this age group typically represents professionals who have accumulated substantial work experience, making them suitable candidates for such positions. Therefore, it is reasonable to expect a higher representation of participants from this age range in the study. The subsequent age groups, such as those aged 41-45 years and 31-35 years, also align with the career progression and experience levels required for credit managers, further supporting the observed distribution.

Figure 4.3

Respondents age



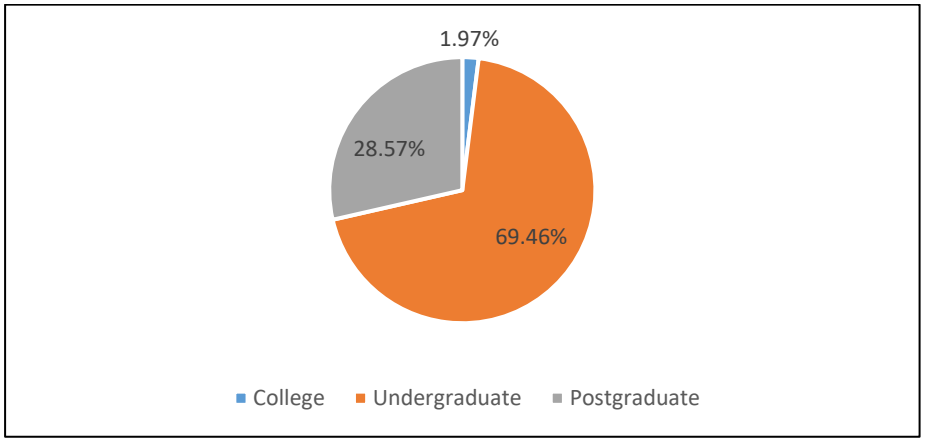
Source: Research Data, (2023)

Education Level

The statistics presented in Figure 6 indicate that a majority of the study's participants who were credit managers in the banking industry had attained a degree or a postgraduate degree. Specifically, 69.46% (141) of the participants had completed an undergraduate level of education, while 28.57% had achieved a postgraduate level of education. A small proportion of the respondents, 1.97% (4), had a college level of education. These findings suggest that higher education qualifications are prevalent among credit managers in the banking industry, with a significant number holding at least a bachelor's degree. This highlights the importance of advanced education in the field and suggests that a strong educational background is often valued for individuals in leadership roles within the banking sector.

Figure 4.4

Participant's Education Level



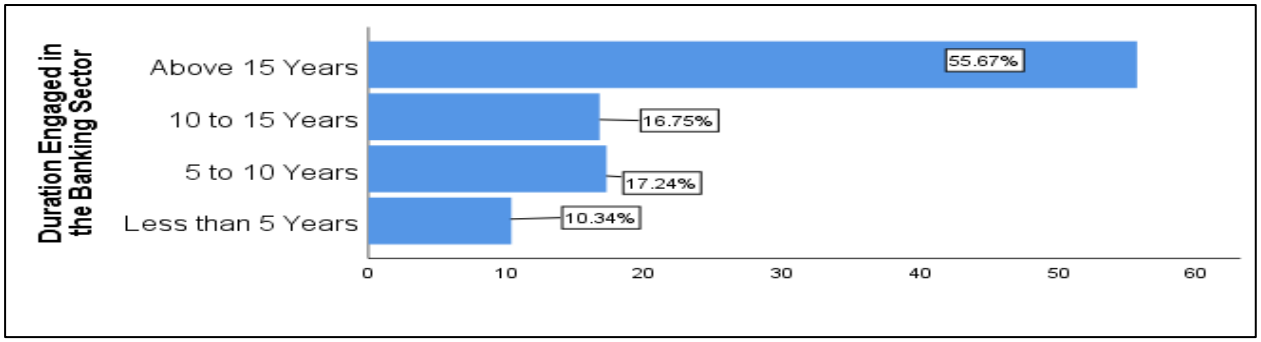
Source: Research Data, (2023)

Figure 7 clearly indicates that a significant proportion of the study's participants in the banking sector had extensive experience in the industry. The majority, accounting for 55.67%

of the participants, had been actively involved in the banking sector for more than 15 years. This suggests a high level of expertise and seasoned professionals among the participants. Additionally, approximately an equal proportion of individuals had been engaged in the sector for 10 to 15 years (16.75%) and 5 to 10 years (17.24%). These findings highlight a diverse range of experience levels within the study's participants, with a substantial number having mid-to-long-term involvement in the banking sector. It is noteworthy that a minority of participants, 10.34%, had been engaged in the sector for less than 5 years, indicating a smaller representation of individuals with relatively limited experience.

Figure 4.5

Duration Participants had been Engaged in the Banking Sector



Source: Research Data, (2023)

Descriptive Statistics

The analysis presented in this section utilizes a range of statistical measures to effectively summarize and identify significant patterns and trends within the data. Measures of central tendency, such as percentages and proportions, were employed to provide a comprehensive overview of the dataset. These measures allowed for the identification of key findings and the quantification of different variables. Additionally, measures of dispersion were utilized to understand the spread or variability within the data, allowing for a more nuanced interpretation of the findings. To present the findings, tables were utilized,

presenting the data in a clear and concise manner. The findings are presented in the subsections below.

Idealized Influence

The study focused on transformational leadership elements as its independent variables. Idealized was the first transformational leadership element investigated. Idealized influence refers to a leader's ability to serve as a role model and inspire followers through their actions, values, and ethical behavior (Bass, 1978). The researchers operationalized idealized influence using three dimensions: vision, charisma, and ethics. These dimensions were used to assess and measure the extent to which leaders demonstrated and embodied idealized influence in their leadership behaviors.

The dimension of vision refers to the leader's ability to articulate a compelling and inspiring vision for the organization or team, which motivates and guides followers towards a shared goal. Charisma, another dimension of idealized influence, relates to the leader's ability to inspire and captivate followers through their personal qualities, communication skills, and magnetic personality. Finally, the dimension of ethics pertains to the leader's demonstration of ethical behavior and values, fostering trust, integrity, and fairness among followers.

By operationalizing idealized influence using these three dimensions, the study aimed to examine the impact and effectiveness of leaders' role modeling, vision setting, charisma, and ethical behavior in influencing and inspiring their followers. This approach allowed for a comprehensive assessment of the different aspects of idealized influence and their potential effects on follower perceptions and outcomes. Upon engaging credit managers from different commercial banks within Nairobi County, several insights were drawn and are presented in Table 4.1 below.

Table 4.1

Descriptive Statistics for Idealized Influence

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
Our organization has a clearly articulated vision, which has translated into improved performance.	*6(3.0%)*	0(0%)	*10(4.9%)*	*147(72.4%)*	*40(19.7%)*	*4.06*	*0.511*	*0.715*	*203(100%)*
Our organization employees consider the moral and ethical consequences of decisions they make.	*6(3.0%)*	0(0%)	*0(0%)*	*154(75.9%)*	*43(21.2%)*	*4.12*	*0.450*	*0.682*	*203(100%)*
Our organization leadership is characterized by charismatic leaders who portray humour and good communication.	*10(4.9%)*	*0(0%0*	*67(33%)*	*102(50.2%)*	*24(11.8%)*	*3.64*	*0.766*	*0.875*	*203(100%)*
Our organization leadership instils pride in the employees and therefore boosting their morale.	*12(5.9%)*	*40(19.7 %)*	*37(18.2%*	*96(47.3)*	*18(8.9%)*	*3.33*	*1.155*	*1.075*	*203(100%)*
Our organization leadership emphasizes the importance of goal setting	*12(5.9%)*	0(0%)	*6(3.0%)*	*139(68.5%)*	*46(22.7%)*	*4.02*	*0.792*	*0.890*	*203(100%)*

Source: Research Data, (2023)

Results from Table 4.1 above represent the respondents' views of idealized influence in commercial banks within Nairobi County.

Upon asking respondent's on whether their organizations had a clearly articulated vision, which had translated into improved performance, while expressing similar views, majority, 72.4% of the respondents agreed, 19.7% strongly agreed, 4.9% were indifferent and the remaining 3.0% strongly disagreed with the claim (mean = 4.06, variance = 0.511, std. dev=0.715).

On whether their organizations' employees considered the moral and ethical consequences of decisions they made, the respondents expressed largely similar opinions with a majority 75.9% of them agreeing with the claim (mean = 4.12, variance = 0.45, std. dev=0.682).

Furthermore, expressing similar opinions (std. dev < 1.00), majority, 50.2% of the respondents agreed, 33% were indifferent, 11.8% strongly agreed and the remaining 4.9% strongly differed with the claim that their organizations' leadership was characterized by charismatic leaders who portrayed humor and good communication (mean 3.64, variance = 0.766, std. dev = 0.875).

Nonetheless, when asked if their organizational leadership instilled pride in the employees and thereafter their morale, majority, 47.3% of the respondents though expressing divergent views (std. dev > 1.000), concurred with the claim (mean= 3.33, variance = 1.155, std. dev =1.075).

Finally, when asked if their organizational leadership emphasized the importance of goal setting, respondents expressed similar views with a majority 68.5% of them concurring with the claim (mean=4.02, variance = 0.792, std. dev=0.890).

Overall, results suggested that while there were mixed views regarding certain aspects of organizational leadership such as charismatic leadership, employee morale, and goal setting, the majority of respondents agreed that their organizations had a clearly articulated vision that resulted in improved performance and showed a high level of concern for ethical issues various techniques.

Inspirational Motivation

Inspirational motivation was the second transformational leadership element to be investigated by the study. Inspirational motivation, as defined by Bass (1978), is a key element of transformational leadership. It pertains to a leader's capacity to inspire and motivate their followers by crafting a compelling vision and establishing high performance expectations. The operationalization of inspirational motivation was explored through three dimensions: teamwork, communication, and autonomy. Transformational leaders foster teamwork by promoting collaboration and unity among team members. They excel in communication by effectively conveying their vision and goals, igniting enthusiasm and commitment. Additionally, they grant autonomy, allowing individuals to make decisions and take ownership of their work. These dimensions collectively capture the essence of inspirational motivation in research on transformational leadership. Upon engaging credit managers from different commercial banks within Nairobi County, several insights were drawn and are according to the statistics presented in Table 4.2 below.

Table 4.2

Descriptive Statistics for Inspirational Motivation

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
Our organization leadership encourages teamwork	*12(5.9%)*	4(2.0%)	*17(8.4%)*	*97(47.8%)*	*73(36%)*	*4.06*	*1.056*	*1.028*	*203(100%)*
Our organization leadership communicates what needs to be done	*18(8.9%)*	*0(0%)*	*26(12.8%)*	*115(56.7 %)*	*44(21.7%)*	*3.82*	*1.117*	*1.057*	*203(100%)*
Our organization leadership gives employees autonomy in their work.	*0(0%)*	*32(15.8%)*	*70(34.5%)*	*89(43.8%)*	*12(5.9%)*	*3.40*	*0.677*	*0.823*	*203(100%)*
There is effective communication between the leaders and the employees in our organization.	*0(0%)*	*0(0%)*	*77(37.9%*	*90(44.3%)*	*12(5.9%)*	*3.80*	*0.518*	*0.720*	*203(100%)*
Our organization leadership engages in employee motivation in an enthusiastic manner.	*6(3.0%)*	*16(7.9%)*	*89(43.8%)*	*92(45.2)*	*0(0%)*	*3.32*	*0.554*	*0.744*	*203(100%)*
Our organization sets goals that are achievable	*6(3.0%)*	*20(9.9%)*	*74(36.5%)*	*93(45.8%*	*10(4.9%)*	*3.40*	*0.716*	*0.846*	*203(100%)*

Source: Research Data, (2023)

Respondents' views on whether inspirational motivation in commercial banks within Nairobi County were according to table 4.2 above.

Upon asking the respondents whether their organizational leadership encouraged teamwork, though expressing divergent views (std. dev >1.00), majority 47.8% agreed, 36% strongly agreed, 8.4% were indifferent, 2.0% disagreed, and 5.9% strongly disagreed with the claim (mean=4.06, variance = 1.056, std. dev=1.028).

Additionally, though having quite differing views, majority 56.7% of the respondents agreed, 21.7% strongly agreed, 12.85 were indifferent and remaining 8.9% strongly disagreed with the fact that their organizational leadership communicated what ought to be done every time (mean =3.82, variance =1.117, std. dev=1.057).

Furthermore, in regard to whether their organizational leadership gave employees autonomy in their work, the respondents expressed similar views with a majority 43.8% of them agreeing with the claim. 5.9% strongly agreed, 34.5% were indifferent and the remaining 15.8% disagreed with the claim (mean=3.40, variance = 0.677, std. dev= 0.823).

Consequently, on if there was effective communication between the leaders and the employees in their organizations, respondents held similar views (std. dev < 1.000) with a majority 44.3% of them concurring with the claim (mean=3.80, variance = 0.518, std. dev = 0.720).

Finally, when requested to express their views on whether their organizations' leadership engaged in employee motivation in an enthusiastic manner and if they indeed set goals that are achievable, expressing similar (std. dev<1) views, majority 45.2% and 45.8% of the respondents respectively concurred with claim.

Overall, respondents' views on the influence of inspirational motivation on the risk-based pricing model in commercial banks within Nairobi County revealed mixed perceptions.

While there was general consensus among respondents regarding the positive impact of inspirational motivation on teamwork, effective communication, employee motivation, and goal setting, differing opinions emerged regarding the degree of autonomy provided by organizational leadership. These findings shed light on the varying perspectives of respondents regarding their organizational leadership practices related to inspirational motivation and its potential implications for the risk-based pricing model in commercial banks within Nairobi County.

Intellectual stimulation

Intellectual stimulation, as conceptualized within the framework of transformational leadership by Bass (1978), is the ability of a leader to challenge and stimulate the thinking, creativity, and problem-solving abilities of their followers. This involves encouraging individuals to question assumptions, explore new ideas, and think critically about situations. The three dimensions used to capture intellectual stimulation in the study are innovation, problem-solving, and encouraging risk-taking.

Transformational leaders foster innovation by cultivating a culture of creativity and empowering their followers to generate and implement new ideas. They also promote effective problem-solving skills by encouraging individuals to approach challenges from various perspectives and seek innovative solutions. Additionally, these leaders support and inspire their followers to take calculated risks, creating an environment that values growth, learning, and embracing new opportunities. Upon engaging credit managers from different commercial banks within Nairobi County, several insights were drawn, and the findings presented in Table 4.3 below.

Table 4.3

Descriptive Statistics for Intellectual Stimulation

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
Our organization leadership encourages innovation among the employees.	*12(5.9%)*	4(2.0%)	*22(10.8%)*	*135(66.5%)*	*30(14.8%)*	*3.82*	*0.840*	*0.916*	*203(100%)*
Our organization leadership encourages employees to be problem solvers by giving them an opportunity to handle challenging tasks.	*6(3.0%))*	*11(5.4%)*	*49(24.1%)*	*98(48.3%)*	*39(19.2%)*	*3.75*	*0.860*	*0.927*	*203(100%)*
Our organization leadership challenges employees to take calculated risks.	*0(0%)*	*15(7.4%)*	*83(40.9%)*	*81(39.9%)*	*24(11.8%)*	*3.56*	*0.634*	*0.796*	*203(100%)*
Our organization leadership encourages participative leadership where all employees are involved in decision making.	*12(5.9%)*	*10(4.9%)*	*102(50.2%)*	*67(33%)*	*12(5.9%)*	*3.28*	*0.777*	*0.882*	*203(100%0)*
Employees in our organization are encouraged to critically re-examine their decisions.	*0(0%)*	*38(18.7 %)*	*62(30.5%)*	*77(37.9%)*	*26(12.8%)*	*3.45*	*0.882*	*0.939*	*203(100%)*

Source: Research Data, (2023)

The findings summarized in Table 4.3 shed light on the views of the respondents regarding the relationship between intellectual stimulation in commercial banks within Nairobi County.

Encouragement of innovation and problem-solving: A majority of respondents (66.5%) agreed that their organizational leadership encouraged innovation among employees (mean =3.82, variance = 0.840, std. dev = 0.916). Additionally, 48.3% of the respondents held similar views (std. dev <1) , concurring that their leadership provided opportunities for employees to be problem solvers by assigning them challenging tasks. These findings indicate that a significant portion of the respondents perceive their organizational leadership as supportive of fostering innovative thinking and problem-solving abilities among employees.

Encouragement of calculated risks and participative leadership: The majority of respondents (40.9% and 50.2%) expressed indifference when asked whether their organizational leadership challenged employees to take calculated risks and encouraged participative leadership involving all employees in decision-making. While holding similar views (std. dev < 1), it suggests that many respondents neither strongly agreed nor strongly disagreed with these claims. This indicates a lack of clear consensus or mixed perceptions regarding these aspects of intellectual stimulation within the organizational leadership.

Critical re-examination of decisions: A significant number of respondents (37.9%) agreed that their organizations encouraged them to critically re-examine their decisions. A sizable portion (30.5%) expressed indifference, while 18.7% disagreed with the claim. Additionally, 12.8% of the respondents strongly concurred with the claim (mean=3.45, variance = 0.882, std. dev = 0.939). These findings indicate that there is some level of support for the notion that organizations promote critical reflection on decisions, although a notable portion of respondents had varying opinions.

Overall, the findings indicated mixed perceptions among respondents regarding intellectual stimulation in commercial banks within Nairobi County. While there was agreement on aspects such as the encouragement of innovation and problem-solving,

consensus was less evident regarding the encouragement of calculated risks, participative leadership, and critical re-examination of decisions. These findings highlighted the diverse perspectives and perceptions of respondents regarding the presence and impact of intellectual stimulation within the banks' organizational leadership practices.

Individualized Consideration

Individualized consideration, as the fourth element of transformational leadership, was investigated to assess a leader's capacity to recognize and attend to the distinct needs, strengths, and aspirations of individual followers (Bass, 1978). The study conceptualized individualized consideration by examining three dimensions: the leader's ability to delegate duties, support career development, and provide coaching/mentoring.

Delegating duties involve empowering followers by entrusting them with responsibilities and decision-making authority, allowing them to demonstrate their abilities and contribute to the organization. This dimension recognizes the importance of recognizing individual talents and providing opportunities for followers to take on challenging tasks that align with their skills and interests.

Supporting career development entails a leader's commitment to fostering the professional growth and advancement of their followers. This involves providing guidance, resources, and opportunities for skill enhancement and career progression. By acknowledging and nurturing the aspirations and goals of each individual, leaders can create a supportive environment that encourages continuous learning and development.

Coaching/mentoring reflects a leader's role in providing guidance and support to individual followers. Upon engaging credit managers from different commercial banks within Nairobi County, several insights were drawn and presented in Table 4.4 below.

Table 4.4

Descriptive Statistics for Individualized Consideration

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
Our organization leadership encourages employees' career growth and development.	*0(0%)*	4(2.0%)	*44(21.7%)*	*125(61.6%)*	*30(14.8%)*	*3.89*	*0.434*	*0.659*	*203(100%)*
Our organization leadership has invested heavily in employee coaching.	*0(0%)*	*21(10.3%)*	*85(41.9%)*	*85(41.9%)*	*12(5.9%)*	*3.43*	*0.574*	*0.757*	*203(100%)*
There is effective delegation of duties within our organization, which enhances productivity.	*0(0%)*	*4(2.0%)*	*74(36.5%)*	*95(46.8%)*	*30(14.8%)*	*3.74*	*0.528*	*0.727*	*203(100%)*
Our organization leadership pays key attention to employees' strengths	*0(0%)*	*21(10.3%)*	*96(47.3%)*	*68(33.5%)*	*18(8.9%)*	*3.41*	*0.629*	*0.793*	*203(100%)*
Our organization leaders are approachable and friendly	*0(0%)*	*15(7.4%)*	*74(36.5%)*	*90(44.3%)*	*24(11.8%)*	*3.61*	*0.626*	*0.791*	*203(100%)*
Our organization leadership has invested heavily in employee mentorship	*6(3.0%)*	*25(12.3%)*	*93(45.8%)*	*79(38.9%)*	*0(0%)*	*3.21*	*0.591*	*0.769*	*203(100%)*
Our organization leaders offer personal and career advice to the employees.	*6(3.0%)*	*20(9.9%)*	*108(53.2%)*	*57(28.1%)*	*12(5.9%)*	*3.24*	*0.679*	*0.824*	*203(100%)*

Table 4.4 findings summarize the participants' views on individualized consideration in commercial banks within Nairobi County.

Upon asking the respondents to share their views on whether their organizational leadership encouraged employees' career growth and development and whether the same leaders were approachable and friendly, majority 61.7% and 44.3% of them while holding almost similar opinions respectively concurred with the claim (mean = 3.89, variance = 0.434, std. dev = 0.689) and (mean = 3.61, variance = 0.574, std. dev=0.791) respectively.

On whether, there was effective delegation of duties within their organizations, which in turn enhanced productivity, majority 46.8% agreed, 36.5% were indifferent, 14.8% strongly agreed while the remaining 2.0% disagreed with the claim (mean =3.74, variance = 0.528, std. dev=0.727).

Nonetheless, holding almost similar views (std. dev < 1.000), majority 41.9%, 47.4% and 45.8% of the respondents were respectively indifferent with the claims that their organizational leadership had invested heavily in employee coaching, paid keen attention to employees' strengths, and had invested heavily in employee mentorship.

A similar view was held by respondents, the majority 53.2% of whom were indifferent with the fact that their organizational leaders offered personal and career advice to the employees (mean=3.24, variance = 0.679, std. dev=0.824).

Overall, the findings indicate that respondents' perceptions regarding their organizational leadership's encouragement of employees' career growth and development, as well as their approachability and friendliness, were generally positive, with a majority of respondents concurring or holding similar opinions. However, when it came to the effective delegation of duties, employee coaching, attention to strengths, employee mentorship, and offering personal and career advice, respondents expressed a higher level of indifference,

suggesting a lack of strong consensus. These findings suggest that while there were positive perceptions regarding certain aspects of individualized consideration, there is room for improvement in terms of these specific dimensions within the organizational leadership practices.

Risk-Based Pricing

The study examined the participant opinions on how commercial banks in Nairobi County apply different risk-based pricing metrics, namely interest rates, internal customer profile data, and credit scoring.

Credit Scoring. Credit scoring is a method of determining a borrower's creditworthiness by analyzing credit data such as payment history, credit utilization, length of credit history, credit types, and outstanding debt. This data is typically gathered from credit reports issued by credit reference bureaus and used to calculate a credit score, which is a numerical value that represents the borrower's creditworthiness. Lenders use credit scores to help determine the risk of lending money to a specific borrower and to set loan terms and interest rates accordingly (Hand et al., 1997).

Internal Customer Profile Data. The act of defining a customer or group of customers using demographics, psychographics, purchasing patterns, and other criteria is known as customer profiling (Park et al., 2012).

Interest Rates. Lenders use interest rate criteria in risk-based pricing to broaden their spectrum of borrowers as they are able to serve both low and high-risk borrowers (Staten, 2014).

The statistics regarding risk-based pricing metrics are according to the subsections below .

Table 4.5

Descriptive Statistics for Credit Scoring

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
I consider myself knowledgeable enough on credit scores.	*0(0%)*	62(30.5%)	*6(3.0%)*	*105(51.7%)*	*30(14.8%)*	*3.51*	*1.162*	*1.078*	*203(100%)*
Customer's credit score is considered before lending	*0(0%)*	*0(0%)*	*18(8.9%)*	*125(61.6%)*	*60(29.6%)*	*4.21*	*0.343*	*0.586*	*203(100%)*
Customer's data on their loans is submitted to the licensed CRBs	*0(0%)*	*0(0%)*	*16(7.9%)*	*113(55.7%)*	*74(36.5%)*	*4.29*	*0.364*	*0.603*	*203(100%)*
We inform our borrowers about the credit scores used in the lending decision.	*0(0%)*	*50(24.6%)*	*91(44.8%)*	*40(19.7%)*	*22(10.8%)*	*3.97*	*0.853*	*0.924*	*203(100%)*
In the past year, we have obtained data on credit scores	*0(0%)*	*5(2.5%)*	*34(16.7%)*	*107(52.7%)*	*57(28.1%)*	*4.06*	*0.545*	*0.739*	*203(100%)*

Source: Research Data, (2023)

Respondents were asked to provide insight into how commercial banks in Nairobi County used credit scores in risk-based pricing, and their opinions are summarized in Table 4.5 above.

The study's primary goal was to ascertain whether the participants thought of themselves as knowledgeable about credit scores. Although opinions varied greatly (std. dev > 1.00), the majority of respondents (51.7%) agreed that they felt knowledgeable enough about credit scoring (mean=3.51, variance = 1.162, std. dev = 1.078).

Similar opinions (std. dev < 1.00) were obtained from the respondents regarding the claims that customer data on their loans was submitted to the licensed CRBs and that customer's credit score was taken into account before lending. A majority of the respondents, 61.6% and 55.7%, respectively, agreed with the claims.

Nonetheless, when asked whether they informed their borrowers about the credit scores used in lending decisions, the majority of respondents (44.8%) while expressing similar views neither agreed nor disagreed with the claim (mean=3.97, variance = 0.853, std. dev =0.924).

Finally, when asked if they had obtained credit score data in the previous year, the majority of respondents (52.7%) agreed. The opinions were nearly identical (mean = 4.06, variance = 0.545, std. dev = 0.739).

Overall, the findings suggest that while participants had varying levels of perceived knowledge about credit scores, the majority agreed with the utilization of customer data and credit scores in lending decisions. However, there was less clarity on whether borrowers were adequately informed about credit scores, and a significant proportion of respondents reported obtaining credit score data in the previous year.

Table 4.6

Descriptive Statistics for Internal Customer Profile Data

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
Customers data is always available whenever we need it	*0(0%)*	10(14.9%)	*35(17.2%)*	*100(49.3%)*	*58(28.6%)*	*4.01*	*0.658*	*0.811*	*203(100%)*
Availability of customer profile data has significantly lowered new customer acquisition cost	*0(0%)*	*0(0%)*	*27(13.3%)*	*128(63.1%)*	*48(23.6%)*	*4.10*	*0.361*	*0.600*	*203(100%)*
With customer data we are able to identify better fit prospects	*52(25.6%)*	*21(10.3%)*	*32(15.8%)*	*74(36.5%)*	*24(11.8%)*	*2.99*	*1.975*	*1.405*	*203(100%)*
Customer churn has significantly declined due to availability of internal customer profile data.	*0(0%)*	*6(3.0%)*	*69(34.0%)*	*98(48.3%)*	*30(14.8%)*	*3.75*	*0.545*	*0.739*	*203(100%)*
Our customer service has greatly improved as a result of the availability of internal customer profile data.	*0(0%)*	*10(4.9%)*	*74(36.5%)*	*79(38.9%)*	*40(19.7%)*	*3.73*	*0.691*	*0.831*	*203(100%)*

Source: Research Data, (2023)

Table 4.6 shows the participants' perspectives on the use of internal customer profile data in credit-based pricing by commercial banks within Nairobi County.

When asked if customers' data was always available whenever they needed it and if its availability had significantly reduced new customer acquisition costs, the majority of respondents (49.3% and 63.1%, respectively) agreed with the claim. The views were found to be largely similar (std**.** dev < 1).

Furthermore, despite holding quite opposing views (std. dev > 1.00), 36.5% agreed, 11.8% strongly agreed, 15.8% were indifferent, 10.3% disagreed, and the remaining 25,6% strongly disagreed with the claim that they were able to identify better fit prospects using customer data (mean = 2.99, variance = 1.975, std. dev=1.405).

Moreover, on the claim that customer churn had significantly decreased due to the availability of internal customer profile data, the majority of respondents (48.3%), despite holding largely similar views agreed with the claim (mean = 3.75, variance = 0.545, std. dev = 0.739).

Finally, when asked if their customer service had improved significantly as a result of the availability of internal customer profile data, 38.9% agreed, 19.7% strongly agreed, 36.5% were indifferent, and the remaining 4.9% disagreed. The opinions were discovered to be largely similar (mean = 3.73, variance = 0.691, std. dev = 0.831).

Overall, the findings demonstrate that participants largely agreed with the positive impact of internal customer profile data on customer acquisition costs, customer churn, and customer service improvement. However, there was more diversity of opinions regarding the ability to identify better-fit prospects using customer data.

Table 4.7

Descriptive Statistics for Interest Rates

	Strongly Disagree	***Disagree***	***Neither Agree nor Disagree***	***Agree***	***Strongly Agree***	***Mean***	***Variance***	***Std. Deviation***	***Total (%)***
The interest applied on loans is dependent on an individual customer's risk profile	*18(8.9%)*	89(43.8%)	*44(21.7%)*	*46(22.7%)*	*6(3.0%)*	*2.67*	*1.034*	*1.017*	*203(100%)*
Implementation of risk-based pricing increases our customer traffic and profit margin	*6(3.0%)*	*63(31%)*	*78(38.4%)*	*44(21.7%)*	*12(5.9%)*	*2.97*	*0.825*	*0.941*	*203(100%)*
We inform our customers that their risk profile can be improved for better loan terms	*0(0%)*	*63(31%)*	*22(10.8%)*	*88(43.3%)*	*30(14.8%0*	*3.42*	*1.165*	*1.080*	*203(100%)*
There is significant improvement in customer satisfaction in regard to loan terms when risk-based pricing is implemented	*0(0%)*	*16(7.9%)*	*37(18.2%)*	*138(68%)*	*12(5.9%)*	*3.72*	*0.480*	*0.693*	*203(100%)*

Source: Research Data, (2023)

Table 4.7 summarizes the perspectives of participants on the use of interest rates in risk-based pricing by commercial banks in Nairobi County

Despite significant differences in opinion (std. dev>1.00), when asked whether interest rates on loans were determined by an individual customer's risk profile, 43.8% disagreed, 8.9% strongly disagreed, 21.7% were indifferent, 22.7% agreed, and the remaining 3.0% strongly agreed (mean=2.67, variance = 1.034, std. dev=1.017).

Concerning the claim that risk-based pricing increased customer traffic and profit margins, the majority of respondents (38.4%), while expressing virtually identical opinions, were indifferent (mean=2.97, variance = 0.825, std. dev = 0,941).

Furthermore, respondents' opinions varied significantly (std. dev > 1.00), with a majority of 43.3% agreeing that they informed their customers that their risk profile could be improved for better loan terms (mean = 3.42, variance = 1.165, std. dev = 1.080).

Finally, when asked if there was a significant improvement in customer satisfaction with loan terms after risk-based pricing was implemented, the majority of respondents (68%) agreed that there was. The opinions were found to be comparable (mean =3.72, variance = 0.480, std dev = 0.693).

Overall, the findings indicate that there were differing opinions among participants regarding the determination of interest rates based on individual risk profiles. While respondents were largely indifferent about the impact of risk-based pricing on customer traffic and profit margins, there was agreement that informing customers about improving their risk profiles could lead to better loan terms. Furthermore, a significant majority agreed that customer satisfaction with loan terms improved after the implementation of risk-based pricing.

Diagnostics Tests

Before proceeding with inferential analysis, several diagnostic tests were conducted to assess the suitability of the data for analysis. The normality of the data was examined to determine if it followed a normal distribution, using tests such as the Shapiro-Wilk test .The linearity between variables was also evaluated through scatter plots and correlation analysis to ensure a linear relationship. Furthermore, the presence of multicollinearity was assessed by examining measures like the variance inflation factor (VIF) or correlation matrices to detect highly correlated predictor variables. These diagnostic tests help researchers ensure that the data meet the assumptions necessary for the chosen inferential analysis, leading to more reliable and valid results. By addressing any issues identified during these tests, researchers can enhance the accuracy and credibility of their conclusions drawn from the data.

Normality Test

The assumption of normality is crucial in regression analysis, as it requires the underlying population to follow a normal distribution (Tsagris & Pandis, 2021). To test for normality, various methods have been proposed, including the Anderson-Darling, Shapiro-Wilk, and Kolmogorov-Smirnov tests (del Barrio et al., 2019). In this study, the researcher employed the Shapiro-Wilk test, which assumes that the sample is normally distributed if the p-value is greater than 0.05. As presented in Table 4.8, the p-values for Idealized influence, Inspirational, Intellectual stimulation, Individualized, and Risk-based pricing were 0.051, 0.056, 0.067, 0.098, and 0.104, respectively. Since all these p-values were greater than 0.05, we concluded that the sample data was drawn from an approximately normal distribution.

Table 4.8

Normality Tests

Variables	Statistic	df	Sig.	Decision
Idealized Influence	1.969	203	.051	Normal Distribution
Inspirational Motivation	1.962	203	.056	Normal Distribution
Intellectual Stimulation	1.881	203	.067	Normal Distribution
Individualized Consideration	1.658	203	.098	Normal Distribution
Risk based Pricing	1.972	203	.104	Normal Distribution

Source: Research Data, (2023)

Linearity Tests

The study employed Pearson correlation analysis to assess the linearity between the dependent variable, risk-based pricing, and each independent variable separately. The results presented in Table 4.9 demonstrated significant linear associations between idealized influence and risk-based pricing ($p < 0.001$), as well as between inspirational motivation and risk-based pricing ($p < 0.001$). Furthermore, statistically significant linear associations was observed between intellectual stimulation and risk-based pricing, as well as between individualized consideration and risk-based pricing, with p-values below 0.05 for all variables. These findings align with a previous study by Mohajeri et al., (2020), which also indicated the presence of a linear relationship between variables when the significance value is less than 0.05.

Table 4.9

Linearity Test results

		Risk – Based Pricing	Conclusion
Idealized Influence	Pearson Correlation	.344**	Linear
	Sig. (2-tailed)	.000	
	N	203	
Inspiration Motivation	Pearson Correlation	.434**	Linear
	Sig. (2-tailed)	.000	
	N	203	
Intellectual Stimulation	Pearson Correlation	.416**	Linear
	Sig. (2-tailed)	.006	
	N	203	
Individualized Consideration	Pearson Correlation	.507**	Linear
	Sig. (2-tailed)	.001	
	N	203	

Source: Research Data, (2023)

Multicollinearity test

Multicollinearity is a statistical problem that occurs when the independent variables in a regression model are significantly linked with one another, affecting the accuracy and precision of the regression coefficients (Bazilevskiy et al., 2022). To detect multicollinearity, Variance Inflation Factors (VIFs) are often computed for each independent variable. VIF quantifies the extent to which a variable is affected by the correlations among the other independent variables in the model. A VIF value of 1 indicates no correlation, while values greater than 1 suggest some degree of correlation, with values greater than 10 indicating severe multicollinearity. The results in Table 4.10 below indicate that there was some degree of multicollinearity among the independent variables, but the severity of multicollinearity was within the acceptable range since none of the VIF values were greater than 10. These findings are consistent with a study by Daoud (2017), which suggests that a VIF value exceeding 10 indicates the presence of severe multicollinearity.

Table 4.10

Multicollinearity Test Results

Model	Collinearity Statistics		
			Decision
	Tolerance	VIF	
(Constant)			
Idealized Influence	.453	2.207	No severe multicollinearity
Inspirational Motivation	.349	2.866	No severe multicollinearity
Intellectual Stimulation	.338	2.961	No severe multicollinearity
Individualized Consideration	.548	1.824	No severe multicollinearity

Source: Research Data, (2023)

Inferential Statistics

To examine the collective impact of transformational leadership elements on risk-based pricing, a multivariate linear regression model was employed in this study. The utilization of multiple linear regression was supported by Montgomery et al. (2021) as an appropriate method when working with several independent variables, making it suitable for this research investigation. Furthermore, the study aimed to determine the extent to which the predictor variables explained the variation in Kenya Airways' performance. Model significance was assessed using an ANOVA test, which involved calculating the F statistic and corresponding p-values. A significance level of 0.05 was chosen to determine if the model was suitable for further statistical analysis. Once the model's significance was established, the coefficients for the predictor variables were computed. The findings of these analyses are presented in the following sections.

By analyzing the regression model and the coefficients of the predictor variables, the study was able to provide insights into the answers to these research questions. The results

shed light on the extent to which idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration influence the risk-based pricing model in commercial banks within Nairobi County.

Model Summary. The model summary gives an overview of the regression model and how well it explains the variability in the dependent variable (i.e., risk-based pricing). According to the findings shown in table 4.11 below, a significant positive linear association was discovered between the independent and dependent variables of the study (R = 0.583). The coefficient of determination (R square = 0.34) suggests that 34% of the variance observed in the dependent variable can be attributed to the independent variables employed in the model, while the remaining variance 66%, was accounted for by other variables not included in the model. However, it is important to note that the remaining 66% of the variance was accounted for by factors not included in the model. These factors could include various external and internal variables that were not considered in the study but could still influence the implementation of risk-based pricing. For example, regulatory frameworks, market dynamics, competition, technological advancements, customer preferences, profitability, and timing are some of the factors that could play a role in shaping risk-based pricing practices in commercial banks.

Table 4.11

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.583[a]	.340	.326	.44446

Source: Research Data, (2023)

ANOVA. Table 4.12 below indicates that the regression model was significant, with an F-statistic of 25.446 and a p-value of less than 0.001. This suggests that the model was effective in predicting risk-based pricing based on the transformational leadership elements, and that the independent variables collectively had a significant influence on the dependent variable.

Table 4.12

The ANOVA Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.107	4	5.027	25.446	.000[b]
	Residual	39.113	198	.198		
	Total	59.220	202			

Source: Research Data, (2023)

Regression Coefficients Table. The coefficients table presents the computed regression coefficients and corresponding p-values for each independent variable (i.e., transformational leadership elements). The coefficient table was according to Table 4.13 below.

Table 4.13

Regression Coefficients Table

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.110	.427		2.601	.010
	Idealized Influence	.155	.071	.130	2.166	.031
	Inspirational Motivation	.302	.0736	.265	4.063	.000
	Intellectual Stimulation	.296	.074	.260	4.011	.000
	Individualized Consideration	.334	.059	.374	5.641	.000

Source: Research Data, (2023)

Table 4.13 above represents the regression model which can be expressed as:

$$\boldsymbol{Y = 1.110 + 0.155X_1 + 0.302X_2 + 0.296X_3 + 0.334X_4 + \sum_x}$$

Where, **Y** = Risk-based pricing

Constant = 1.110 (intercept)

$\mathbf{X_1}$ **=** Idealized Influence

$\mathbf{X_2}$ **=** Inspirational Motivation

$\mathbf{X_3}$ **=** Intellectual Stimulation

$\mathbf{X_4}$ = Individualized Consideration

$\sum_x$ = Error term (Disturbance term)

From the regression model, the constant term of 1.110 represents the predicted value of the dependent variable when all independent variables are equal to zero. The symbol $\sum_x$ represents any additional independent variables that may have been included in the model but are not specifically mentioned in the equation.

The model further revealed that idealized influence had a positive and statistically significant effects on risk-based pricing (p-value = 0.031)

Additionally, inspirational motivation was revealed also revealed to have a positive and statistically significant influence on risk-based pricing ($p<0.001$).

Regarding intellectual stimulation, it was revealed to have a positive and statistically significant relationship with risk-based pricing ($p<0.001$).

Moreover, individualized consideration was found have a positive and statistically significant impact on risk-based pricing ($p<0.001$).

The obtained results were crucial in addressing the objectives of the study, which aimed to investigate the influence of various transformational leadership elements on the risk-based pricing model implemented by commercial banks within Nairobi County. Specifically, the objectives included examining the impact of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration on the risk-based pricing model. To achieve these objectives, corresponding research questions were formulated. The first research question focused on the effect of idealized influence on the risk-based pricing model, while the second question explored the influence of inspirational motivation. The third research question aimed to establish the relationship between intellectual stimulation and the risk-based pricing model, and the fourth question examined the impact of individualized consideration.

Effects of Idealized Influence on Risk-Based Pricing Model by Commercial Banks within Nairobi County

The first objective of the study aimed to investigate the effects of idealized influence on the risk-based pricing model implementation by commercial banks within Nairobi County. The corresponding research question sought to understand how idealized influence affects the risk-based pricing model. The obtained results, as presented in Table 4.13, revealed a standardized beta coefficient of $\beta=0.130$ and a corresponding p-value of 0.031. The significance of the p-value being less than the chosen threshold of 0.05 indicates that there was a statistically significant relationship between idealized influence and the risk-based

pricing model by commercial banks. Based on these findings, it was concluded that idealized influence had a significant and favorable impact on the risk-based pricing model implementation by commercial banks within Nairobi County. These results contribute to the understanding of the role of transformational leadership in shaping risk-based pricing strategies and provide valuable insights for bank leaders and policymakers in Nairobi County, highlighting the importance of fostering idealized influence to enhance the implementation of risk-based pricing models in the banking sector.

Relationship Between Intellectual Stimulation and Risk-Based Pricing by commercial banks within Nairobi County

The second objective of the study aimed to examine the relationship between intellectual stimulation and the risk-based pricing model implemented by commercial banks within Nairobi County. The corresponding research question sought to understand the nature of the relationship between intellectual stimulation and the risk-based pricing model. The findings, as presented in Table 4.13, revealed a standardized beta coefficient of $\beta=0.265$ and a corresponding p-value less than 0.001. The statistical significance of the p-value being less than the predetermined threshold of 0.001 indicates a positive and statistically significant relationship between intellectual stimulation and the risk-based pricing model by commercial banks.

Based on these results, it was concluded that intellectual stimulation had a significant and positive influence on the risk-based pricing model implementation by commercial banks within Nairobi County. This suggests that when leaders encourage innovative thinking, foster a culture of creativity, and challenge their employees to think critically about risk management and pricing strategies, it enhances the adoption and implementation of the risk-based pricing model in commercial banks.

These findings contribute to the understanding of the role of intellectual stimulation in shaping risk-based pricing practices in the banking sector. They highlight the importance of fostering a stimulating intellectual environment within banks, where employees are encouraged to generate new ideas and explore innovative approaches to risk-based pricing. This information can be valuable for bank leaders and policymakers in Nairobi County, providing insights on how to enhance the effectiveness of the risk-based pricing model through intellectual stimulation.

Influence of Individualized Consideration on Risk-Based Pricing Model by Commercial Banks within Nairobi County

The third objective of the study aimed to investigate the influence of individualized consideration on the risk-based pricing model implemented by commercial banks within Nairobi County. The corresponding research question sought to understand the extent to which individualized consideration influence the risk-based pricing model.

The results presented in Table 4.13 revealed a standardized beta coefficient of $\beta=0.260$ and a p-value less than 0.001. The statistical significance of the p-value being less than the predetermined threshold indicates a positive and statistically significant influence of individualized consideration on the risk-based pricing model by commercial banks. Based on these findings, it was concluded that individualized consideration had a significant and positive influence on the risk-based pricing model implementation by commercial banks within Nairobi County

These results highlight the importance of tailoring leadership approaches to individual employees within the context of risk-based pricing. By recognizing and addressing the specific requirements and capabilities of each employee, leaders can create a more conducive and supportive environment for implementing the risk-based pricing model effectively. The

implications of these findings are relevant for bank leaders and managers, as they provide insights into the significance of individualized consideration in promoting successful risk-based pricing practices. By valuing and attending to the individual differences of employees, leaders can foster a sense of empowerment, engagement, and commitment, which are crucial for the successful implementation of the risk-based pricing model in commercial banks.

Extent to which Inspirational Motivation Influenced Risk-Based Pricing Model by Commercial Banks within Nairobi County.

The fourth objective of the study aimed to examine the extent to which inspirational motivation influenced the risk-based pricing model implementation by commercial banks within Nairobi County. The corresponding research question sought to understand the impact of inspirational motivation on the risk-based pricing model. The results presented in Table 4.13 revealed a standardized beta coefficient of $\beta=0.374$ and a p-value less than 0.001. The statistical significance of the p-value being less than the predetermined threshold indicates a positive and statistically significant influence of inspirational motivation on the risk-based pricing model by commercial banks. Based on these findings, it was concluded that inspirational motivation had a significant and positive impact on the risk-based pricing model implementation by commercial banks within Nairobi County.

These results highlight the importance of inspirational leadership in driving successful risk-based pricing practices. By effectively communicating the purpose and vision of the risk-based pricing model, leaders can inspire employees to embrace the model, take ownership of their roles, and actively contribute to its implementation and success. The implications of these findings emphasize the role of leadership in creating a motivational climate conducive to the implementation of the risk-based pricing model. By cultivating a culture of inspiration and motivation, leaders can enhance employee engagement, promote innovation and

creativity, and ultimately improve the effectiveness of the risk-based pricing model in commercial banks.

These findings have practical implications for bank leaders and managers, highlighting the significance of inspirational motivation in driving successful risk-based pricing initiatives. By adopting transformational leadership practices and fostering an inspiring work environment, leaders can empower their employees to embrace the risk-based pricing model, resulting in improved performance, customer satisfaction, and overall organizational success.

Discussion of Inferential Statistics Results

The regression model's findings demonstrate that transformational leadership, encompassing the four elements of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, exerted a significant and favorable influence on risk-based pricing models implementation by commercial banks in Nairobi County. These results closely correspond to the conclusions drawn by Khalili (2016), which revealed a positive and significant association between transformational leadership and employees' creativity and innovation. Additionally, the findings of Zuraik et al. (2019) indicating a direct positive impact of CEO transformational leadership on organizational innovation align with the current study's findings on the direct relationship between transformational leadership elements and risk-based pricing.

The findings indicate that transformational leaders who prioritize inspiring and intellectually stimulating their employees while demonstrating individualized consideration and ethical leadership can positively influence commercial banks' risk-based pricing. These leadership qualities can help create a culture of ethical decision-making, clear vision, and goal setting within the organizations, which can lead to improved performance and greater

acceptance of risk-based pricing practices. This confirms the findings of a study by Kirui, (2017) which revealed that transformational leadership had been associated with higher levels of performance and effectiveness in the banking sector in Kenya.

Nonetheless, the above findings are consistent with the previous studies by Islam et al., in 2020 whose findings revealed that transformational leadership had a significant impact on employee trust in leadership and championing behavior during organizational change in Bangladesh banking sector. The findings are also closely related to a study in Ethiopia by Debele and Birbirsa in 2019 that sought to establish whether a company's leadership style helps with risk management in the tomato production value chain in Ethiopia. The study demonstrated that leadership style has a considerable impact on organizational risk management.

The study's findings also provide empirical evidence supporting the consistency between the four elements of transformational leadership and Transformational Leadership theory. They validate the theory's propositions regarding the influential role of transformational leadership behaviors in driving organizational outcomes and aligning with the goals of the risk-based pricing model in commercial banks. According to Transformational Leadership theory, transformational leaders have a significant positive impact on their followers and organizations by inspiring and motivating them to achieve higher levels of performance (Burns, 2010; Mittal, 2015). They do this by exhibiting behaviors such as setting a positive example (idealized influence), stimulating creativity and critical thinking (intellectual stimulation), showing individualized care and support (individualized consideration), and inspiring and motivating followers to reach their full potential (inspirational motivation). The findings of the study align with these key principles of Transformational Leadership theory. The significant and positive influences of idealized influence, intellectual stimulation, individualized consideration, and inspirational motivation

on the risk-based pricing model indicate that when leaders exhibit these transformational behaviors, they can effectively drive the implementation and success of the model within commercial banks. The findings demonstrate that transformational leadership behaviors have a statistically significant impact on the risk-based pricing model, reinforcing the importance of these leadership elements in guiding and motivating employees towards achieving organizational goals.

The findings provide valuable insights into the role of transformational leadership in the context of risk-based pricing within commercial banks. The multivariate linear regression model employed demonstrated a significant relationship between the transformational leadership elements (idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration) and risk-based pricing. Although the study primarily focused on transformational leadership and its influence on risk-based pricing, it is worth noting the conceptual connections between our findings and arbitrage pricing theory. Arbitrage pricing theory posits that the expected return of an asset is determined by its exposure to various systematic risk factors (Ross, 1976). Similarly, our study examined the impact of transformational leadership elements on risk-based pricing, which can be seen as an indicator of the systematic risk associated with a bank's pricing decisions.

While our study did not directly apply the principles of arbitrage pricing theory, there are parallels in terms of understanding the relationship between variables and their influence on pricing outcomes. The coefficients assigned to the transformational leadership elements in our regression model can be viewed as analogous to factor sensitivities in arbitrage pricing theory, representing the strength and direction of their impact on risk-based pricing.

Summary of Regression Analysis Findings

Table 4.14

Summary of Regression Analysis Findings

Research Question	Findings	Conclusion
How does idealized influence affect risk-based pricing model by commercial banks within Nairobi County?	p= 0.031 < 0.05	Idealized influence has a positive and significant impact on risk-based pricing model by commercial banks within Nairobi County
How does inspirational motivation influence risk-based pricing model by commercial banks within Nairobi County?	p< 0.001	inspirational motivation positively and significantly influences risk-based pricing model by commercial banks within Nairobi County
What is the relationship between intellectual stimulation and risk-based pricing model by commercial banks within Nairobi County?	p< 0.001	Intellectual stimulation and risk-based pricing model by commercial banks within Nairobi County have a significant and positive relationship
What is the influence of individualized consideration on risk-based pricing model by commercial banks within Nairobi County?	p< 0.001	individualized consideration has a positive and significant influence on risk-based pricing model by commercial banks within Nairobi County

Source: Research Data, (2023)

Chapter Summary

The chapter provides a detailed analysis of the collected data, covering response rate, demographics statistics, descriptive statistics, diagnostics tests and inferential statistics and discussion of inferential statistics results. The inferential statistics, specifically the multivariate regression model, helped to examine the relationship between risk-based pricing and different transformational leadership elements.

Chapter Five: Summary, Conclusion, and Recommendations

This chapter provides a concise overview of the key findings and objectives of the study conducted in Nairobi County, Kenya. The main objective of the study was to investigate the influence of transformational leadership on the risk-based pricing model implemented by commercial banks in the county. Specifically, the study aimed to examine the impact of four elements of transformational leadership, namely idealized influence, intellectual stimulation, inspirational motivation, and individualized consideration, on the risk-based pricing model within the banking sector. The study drew upon several theoretical frameworks to guide the research. The Transformational Leadership Theory provided insights into the leadership behaviors and qualities that can influence organizational outcomes, particularly in the context of risk-based pricing models. Additionally, the study incorporated the Arbitrage Pricing Theory (APT), which offered a framework for understanding the factors that determine asset pricing, including systematic risk factors. To align with a positivistic philosophical worldview, the study employed a cross-sectional descriptive research design. The target population comprised 564 commercial bank branches in Nairobi County, encompassing different tiers of banks. Credit managers within these branches were identified as the key respondents for data collection. The sample size of 234 participants was determined using stratified sampling techniques, ensuring representation from various banks and tiers within the banking sector.

Summary of Findings

The study consisted of four specific objectives, each addressing a distinct subject and accompanied by related research questions. To investigate these objectives, multiple linear regression analysis was employed as the method of choice for inferential data analysis. This approach facilitated a comprehensive examination of the relationships between variables and provided valuable insights in line with the research objectives.

The initial stage of data analysis involved determining the response rate, which was found to be 86.8%. Out of the 234 targeted respondents, a total of 203 participants took part in the study. This response rate exceeded the minimum threshold of 60% recommended by Mugenda & Mugenda (2003) for satisfactory analysis. The high response rate enhances the reliability and generalizability of the study's findings.

In terms of participant composition, the study revealed an almost equal distribution of gender among the participants, with males accounting for 51.2% and females accounting for 48.8% of the total sample. Regarding age demographics, the majority of participants fell within the age range of 36 to 40 years (45.8%), followed by those in the 41st to 45th years age group (24.4%). In terms of educational qualifications, the study found that the majority of participants had completed an undergraduate degree (69.46%), indicating a higher level of education among the respondents. Only a small percentage (1.97%) had attained a college diploma. Regarding work experience, a significant portion of the participants (55.67%) had been actively engaged in the banking industry for more than 15 years. Approximately an equal proportion of individuals had been engaged in the sector for 10 to 15 years (16.75%) and 5 to 10 years (17.24%). A minority of participants, 10.34%, had been engaged in the sector for less than 5 years, indicating a smaller representation of individuals with relatively limited experience.

Effects of Idealized Influence on Risk-Based Pricing Model by Commercial Banks within Nairobi County

The first objective of the study was to examine the effects of idealized influence on the risk-based pricing model implementation by commercial banks within Nairobi County. The corresponding research question focused on understanding how idealized influence

influences the risk-based pricing model. To address this objective and research question, both descriptive and inferential statistics were conducted.

Descriptive statistical analysis was conducted to explore respondents' perceptions regarding various aspects of idealized influence within their organizations. The findings indicated that a majority of respondents agreed that their organizations had a clearly articulated vision leading to improved performance. Similarly, most respondents agreed that their organizations' employees considered the moral and ethical consequences of their decisions. Regarding leadership characteristics, such as charisma, humor, and good communication, a substantial proportion of respondents agreed, while some remained indifferent. When it came to the instillation of pride and morale by organizational leadership, respondents exhibited mixed opinions. Finally, a significant majority of respondents concurred that their organizational leadership emphasized the importance of goal setting.

From the inferential statistics revealed a standardized beta coefficient of $\beta=0.130$ and a corresponding p-value of 0.031. The significance of the p-value being less than the chosen threshold of 0.05 indicates that there was a statistically significant relationship between idealized influence and the risk-based pricing model by commercial banks.

Relationship Between Intellectual Stimulation and Risk-Based Pricing by commercial banks within Nairobi County

The second objective of the study aimed to investigate the relationship between intellectual stimulation and the risk-based pricing model implemented by commercial banks within Nairobi County. The corresponding research question focused on understanding the relationship between intellectual stimulation and risk-based pricing model.

Descriptive analysis findings revealed that a majority of respondents agreed that their organizational leadership encouraged innovation among employees. They also perceived their leadership as providing opportunities for employees to be problem solvers by assigning challenging tasks.

However, when it came to the encouragement of calculated risks and participative leadership, respondents expressed mixed opinions. Many neither strongly agreed nor strongly disagreed with these claims, suggesting a lack of clear consensus or mixed perceptions regarding these aspects of intellectual stimulation within the organizational leadership.

Regarding the critical re-examination of decisions, a significant number of respondents agreed that their organizations encouraged them to critically reflect on their decisions. However, a notable portion of respondents had varying opinions, expressing indifference or disagreement with the claim.

From the inferential statistics, a standardized beta coefficient of $\beta=0.265$ was obtained, and the corresponding p-value was found to be less than 0.001. The significance of the p-value being less than the chosen threshold of 0.001 indicates a statistically significant relationship between intellectual stimulation and the risk-based pricing model implemented by commercial banks within Nairobi County.

Individualized Consideration and Risk-Based Pricing Model by Commercial Banks within Nairobi County

The third objective of the study was to establish the influence of individualized consideration on risk-based pricing model by commercial banks within Nairobi County. The corresponding research question focused on understanding the influence of individualized consideration and risk-based pricing model. To address this objective and research question, both descriptive and inferential statistics were generated.

Descriptive analysis findings revealed that a majority of respondents agreed that their organizational leadership encouraged employees' career growth and development, and that the leaders were approachable and friendly. Additionally, a significant portion of respondents agreed that effective delegation of duties enhanced productivity.

However, there were mixed perceptions and indifference regarding other aspects of individualized consideration, such as employee coaching, attention to strengths, employee mentorship, and offering personal and career advice. These findings suggest that while some aspects of individualized consideration may have an influence on the risk-based pricing model, there is a need for further exploration to better understand the specific impact within commercial banks.

The inferential statistics revealed a significant relationship between individualized consideration and the risk-based pricing model implemented by commercial banks in Nairobi County. The standardized beta coefficient of $\beta=0.260$ indicates a positive and statistically significant impact of individualized consideration on the risk-based pricing model. The p-value being less than 0.001 further supports the significance of this relationship.

Extent to which Inspirational Motivation Influenced Risk-Based Pricing Model by Commercial Banks within Nairobi County

The fourth objective of the study was to investigate the extent to which inspirational motivation influences risk-based pricing model by commercial banks within Nairobi County. The research question focused on understanding how inspirational motivation influences the risk-based pricing model. To address this objective and research question, the study employed both descriptive and inferential statistics.

Descriptive statistical analysis provided insights into the different dimensions of inspirational motivation. The mean scores and standard deviations were calculated for each dimension, reflecting the average scores and the variability of response.

A majority of the respondents agreed and strongly agreed that their organizational leadership encouraged teamwork, a small percentage disagreed. Similarly, opinions differed on communication and autonomy, with a majority expressing agreement. Regarding effective communication and employee motivation, a significant percentage of respondents concurred with the statements.

The inferential statistics revealed a significant relationship between individualized consideration and the risk-based pricing model implemented by commercial banks in Nairobi County. The standardized beta coefficient of $\beta=0.374$ indicates a positive and statistically significant influence of inspirational motivation on the risk-based pricing model. The p-value being less than 0.001 further supports the significance of this relationship.

Conclusion

The primary goal of this study was to investigate the influence of transformational leadership on risk-based pricing model in commercial banks within Nairobi County. Several conclusions can be derived from the statistical findings.

Based on the findings from the descriptive statistics of objective one, which investigated the effects of idealized influence on the implementation of the risk-based pricing model by commercial banks in Nairobi County, the results indicated a diversity of views among respondents regarding specific aspects of organizational leadership. These aspects include charismatic leadership, employee morale, and goal setting. However, a majority of the respondents agreed that their organizations had a clearly articulated vision, which was

perceived to contribute to improved performance. Furthermore, the respondents expressed a high level of concern for ethical issues within their organizations.

On objective two which aimed to investigate the relationship between intellectual stimulation and the risk-based pricing model implemented by commercial banks within Nairobi County, the descriptive statistical findings revealed mixed perceptions among respondents regarding intellectual stimulation in these banks. While there was general agreement on certain aspects, such as the encouragement of innovation and problem-solving, consensus was less evident regarding other dimensions, including the encouragement of calculated risks, participative leadership, and critical re-examination of decisions.

Regarding objective three which focused on establishing the influence of individualized consideration on risk-based pricing model by commercial banks within Nairobi County. descriptive statistical analysis revealed that respondents' perceptions regarding their organizational leadership's encouragement of employees' career growth and development, as well as their approachability and friendliness, were generally positive, with a majority of respondents concurring or holding similar opinions. However, when it came to the effective delegation of duties, employee coaching, attention to strengths, employee mentorship, and offering personal and career advice, respondents expressed a higher level of indifference, suggesting a lack of strong consensus.

In terms of the fourth objective which sought to investigate the extent to which inspirational motivation influenced risk-based pricing model by commercial banks within Nairobi County, the descriptive statistical analysis findings revealed mixed perceptions among respondents. While there was general consensus among respondents regarding the positive impact of inspirational motivation on teamwork, effective communication, employee motivation, and goal setting, differing opinions emerged regarding the degree of autonomy provided by organizational leadership.

Overall, the study revealed a positive and statistically significant impact of idealized influence on risk-based pricing ($p=0.031$), intellectual stimulation on risk-based pricing ($p<0.001$), individualized consideration on risk-based pricing ($p<0.001$), and inspirational motivation on risk-based pricing ($p<0.001$).

Key Contribution of the Study to Knowledge

The findings of this study make several key contributions to the existing knowledge in the field. Firstly, the study enhances our understanding of the impact of transformational leadership on the risk-based pricing model in commercial banks. By demonstrating the positive and statistically significant influence of factors such as idealized influence, intellectual stimulation, individualized consideration, and inspirational motivation, the study highlights the crucial role of effective leadership in shaping and implementing risk-based pricing strategies. This insight adds to the existing body of knowledge on leadership and its implications for pricing models in the banking sector.

Secondly, the study identifies specific dimensions within each leadership factor that have a significant impact on the risk-based pricing model. For instance, the findings shed light on the importance of charismatic leadership, employee morale, and goal setting in relation to idealized influence. This detailed understanding of the specific leadership behaviors and practices that contribute to successful risk-based pricing implementation provides valuable insights for leaders and policymakers seeking to enhance pricing strategies in commercial banks.

Lastly, by exploring the relationship between transformational leadership and risk-based pricing, the study contributes to the existing literature on pricing models in the banking industry. It adds empirical evidence on the role of leadership factors in shaping and enhancing the effectiveness of risk-based pricing models, providing practical insights for

banks, leaders, and policymakers involved in developing and implementing such pricing strategies.

Recommendations

Based on the findings, the study recommends a number of actions to promote use of risk-based pricing in Nairobi County commercial banks. Policymakers should prioritize leadership development programs that emphasize the four key factors of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, as these can foster a culture of risk-based pricing acceptance.

Furthermore, Credit managers should adopt a transformational leadership style characterized by idealized influence, intellectual stimulation, individualized consideration, and inspirational motivation. By demonstrating these leadership behaviors, credit managers can effectively influence their teams and enhance the implementation of the risk-based pricing model within the banking industry.

Suggestion for Further Studies

The study puts forward several valuable suggestions for future research aimed at advancing the knowledge and understanding of risk-based pricing within the context of commercial banks in Nairobi County. Firstly, a longitudinal study would provide a means of observing the long-term effects of transformational leadership on adoption and sustainability of risk-based pricing model. Such a study would provide critical insights into the impact of leadership practices over time and identify any potential challenges or factors that influence the continued implementation of risk-based pricing strategies.

An impact assessment study to measure the actual impact of risk-based pricing on key performance indicators such as customer acquisition, customer retention, profitability, and loan portfolio quality would also be of great value. Such a study could analyze historical data

and compare performance metrics before and after implementation of risk-based pricing to evaluate its effectiveness and identify areas for improvement.

Finally, an evaluation of leadership training programs aimed at developing transformational leadership qualities in banking leaders is recommended. Such an evaluation would assess the effectiveness of these programs in enhancing leadership skills, improving communication, and driving the successful implementation of risk-based pricing models.

Summary

This chapter summarizes the findings, conclusions, and recommendations of the study on the influence of transformational leadership on risk-based pricing models in commercial banks within Nairobi County. The study found that transformational leadership, specifically the elements of idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration, had a significant and positive impact on the implementation of risk-based pricing models. The study highlights the importance of charismatic leadership, ethical considerations, innovation, and personalized employee support in pricing model.

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List of Appendices

Appendix I: Consent Form

You have been chosen at random to participate in a study to analyze the impact of transformational leadership on risk-based pricing model by commercial banks in Kenya. Your opinions and information will be treated with strict confidentiality and will not be shared with anyone else. A questionnaire will be shared with you which and you will have two weeks to fill it and submit it. The researcher will be the only one who has access to the data and opinions you provide. The data will be kept safe and secure in a locked location under the researcher's supervision.

There are no risks associated with participating in this exercise. You are free to ask the researcher any questions you might have with the methodologies being deployed at any time. The information you offer in this study will contribute to the body of knowledge on whether transformational leadership exists in commercial banks in Kenya and what impact it has on risk-based pricing model. This will be of interest to both bank executives and staff, as it will emphasize the traits of transformational leadership that commercial banks in Kenya must embrace in order to quickly implement risk-based pricing.

You can decline to answer any questions if you are not comfortable with it. You may also withdraw from this exercise at any point if you are uncomfortable with it. Please sign this consent form if you accept to participate in this project.

Signature: …….....

Date: …….....

Appendix II: Questionnaire

Introduction

The purpose of this study is to gather information on the influence of transformational leadership on risk-based loan pricing model: a case of Kenya commercial banks within Nairobi County. Your responses and information will be used only for academic purposes and remain strictly private. Please answer the following questions truthfully and objectively.

Section A: Demographic Characteristics

1. Gender

   Male [ ]

   Female [ ]

2. Age

   20-30 years [ ]

   31-40 years [ ]

   41-50 years [ ]

   Above 50 years [ ]

3. Highest Level of Education

   College [ ]

   University [ ]

   Postgraduate [ ]

4. How long have you worked in the Banking Sector?

   Less than 5 years [ ]

   5 to 10 years [ ]

   10 to 15 years [ ]

   Above 15 years [ ]

Section B: Transformational Leadership

i). Idealized Influence

This Section is concerned with examining the effect of idealized influence on risk-based loan pricing model by commercial banks within Nairobi County. Please check the box which best describes your agreement or disagreement on each of the following statements. The measurement is as follows; (1) strongly disagree, (2) disagree, (3) moderately agree, (4) agree, and (5) strongly agree.

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
5. Our organization has a clearly articulated vision, which has translated into improved performance.					
6. Our organization employees consider the moral and ethical consequences of decisions they make					
7. Our organization leadership is characterized by charismatic leaders who portray humor and good communication.					
8. Our organization leadership instills pride in the employees and therefore boosting their morale.					
9. Our organization leadership emphasizes the importance of goal setting					

10. In your opinion, does idealized influence affect risk-based loan pricing model? Explain

.....

ii) **Inspirational Motivation**

This Section is concerned with examining the influence of inspirational motivation on risk-based loan pricing model by commercial banks within Nairobi County. Please check the box which best describes your agreement or disagreement on each of the following statements. The measurement is as follows; (1) strongly disagree, (2) disagree, (3) moderately agree, (4) agree, and (5) strongly agree.

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
11. Our organization leadership encourages teamwork					
12. Our organization leadership communicates what needs to be done					
13. Our organization leadership gives employees autonomy in their work.					
14. There is effective communication between the leaders and the employees in our organization					
15. Our organization leadership engages in employee motivation in an enthusiastic manner					
16. Our organization sets goals that are achievable					

17. In your opinion, does inspirational motivation influence risk-based loan pricing model? Explain .....

(iii) **Intellectual stimulation**

This Section is concerned with examining the influence of intellectual stimulation on risk-based loan pricing model by commercial banks within Nairobi County. Please check the box which best describes your agreement or disagreement on each of the following statements. The measurement is as follows; (1) strongly disagree, (2) disagree, (3) moderately agree, (4) agree, and (5) strongly agree.

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
18. Our organization leadership encourages innovation among the employees.					
19. Our organization leadership encourages employees to be problem solvers by giving them an opportunity to handle challenging tasks.					
20. Our organization leadership challenges employees to take calculated risks.					
21. Our organization leadership encourages participative leadership where all employees are involved in decision making.					
22. Employees in our organization are encouraged to critically re-examine their decisions.					

23. In your opinion, does intellectual stimulation influence on risk-based loan pricing model? Explain .....

iv) Individualized Consideration

This Section is concerned with examining the influence of individualized consideration on risk-based loan pricing model by commercial banks within Nairobi County. Please check the box which best describes your agreement or disagreement on each of the following statements. The measurement is as follows; (1) strongly disagree, (2) disagree, (3) moderately agree, (4) agree, and (5) strongly agree.

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
24. Our organization leadership encourages employees' career growth and development	25.				
26. Our organization leadership has invested heavily in employee coaching.					
27. There is effective delegation of duties within our organization, which enhances productivity.					
28. Our organization leadership pays key attention to employees' strengths					
29. Our organization leaders are approachable and friendly					
30. Our organization leadership has invested heavily in employee mentorship					
31. Our organization leaders offer personal and career advice to the employees.					

32. In your opinion, does individualized consideration influence risk-based loan pricing model? Explain.....

Section C: Risk-Based Pricing

This section is concerned with a variety of metrics that lenders use to understand their customers' credit behavior and broaden their spectrum of borrowers while minimizing default risk. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements. The measurement is as follows; (1) strongly disagree, (2) disagree, (3) moderately agree, (4) agree, and (5) strongly agree.

i) Credit Score

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
33. I consider myself knowledgeable enough on credit scores.					
34. Customer's credit score is considered before lending					
35. Customer's data on their loans is submitted to the licensed CRBs					
36. We inform our borrowers about the credit scores used in the lending decision.					
37. In the past year, we have obtained data on credit scores					

ii) Internal Customer profile data

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)

38. Customers data is always available whenever we need it					
39. Availability of customer profile data has significantly lowered new customer acquisition cost					
40. With customer data we are able to identify better fit prospects					
41. Customer churn has significantly declined due to availability of internal customer profile data					
42. Our customer service has greatly improved as a result of the availability of internal customer profile data.					

iii) Interest Rates

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)
43. The interest applied on loans is dependent on an individual customer's risk profile					
44. Implementation of risk-based pricing increases our customer traffic and profit margin					
45. We inform our customers that their risk profile can be improved for better loan terms					
46. There is significant improvement in customer satisfaction in regard to loan terms when risk-based pricing is implemented					

Appendix III: Bank Branch Network per County

APPENDIX XVI: BANK BRANCH NETWORK PER COUNTY

No.	County	December 2020	December 2021	Increase/Decrease
1	Baringo	9	10	1
2	Bomet	9	9	0
3	Bungoma	16	17	1
4	Busia	10	11	1
5	Elgeyo/Marakwet	6	6	0
6	Embu	10	12	2
7	Garissa	9	7	-2
8	HomaBay	9	9	0
9	Isiolo	7	10	3
10	Kajiado	44	44	0
11	Kakamega	18	17	-1
12	Kericho	17	19	2
13	Kiambu	76	76	0
14	Kilifi	35	33	-2
15	Kirinyaga	17	17	0
16	Kisii	21	21	0
17	Kisumu	40	39	-1
18	Kitui	15	15	0
19	Kwale	12	11	-1
20	Laikipia	20	17	-3
21	Lamu	9	8	-1
22	Machakos	29	30	1
23	Makueni	16	16	0
24	Mandera	3	3	0
25	Marsabit	7	6	-1
26	Meru	40	40	0
27	Migori	14	14	0
28	Mombasa	121	112	-9
29	Murang'a	20	20	0
30	Nairobi City	597	564	-33
31	Nakuru	61	61	0
32	Nandi	12	13	1
33	Narok	15	14	-1
34	Nyamira	6	6	0
35	Nyandarua	9	9	0
36	Nyeri	29	31	2
37	Samburu	3	3	0
38	Siaya	8	7	-1
39	Taita/Taveta	9	11	2
40	Tana River	3	3	0
41	Tharaka-Nithi	7	7	0
42	Trans Nzoia	14	17	3
43	Turkana	7	6	-1
44	Uasin Gishu	49	44	-5
45	Vihiga	6	6	0
46	Wajir	4	4	0
47	West Pokot	4	4	0
	Totals	**1,502**	**1,459**	**-43**

Source: Bank Supervision Annual Report, CBK (2021)

Appendix IV: Banking Sector Market Share 2021

APPENDIX IV: BANKING SECTOR MARKET SHARE - DECEMBER 2021

		Market size index	Market Rank index (%)	Total Net Assets Ksh.M	% of the market	Total Deposits Ksh.M	% of the market	Total Shareholders' funds Ksh.M	% of the market	Number Deposit accounts (Millions)	% of the market	Number of loan accounts (Millions)	% of the Market
	Weighting			0.33		0.33		0.33		0.005		0.005	
	Large Peer Group >5%												
1	KCB Bank Kenya Ltd	13.81	1	826,395	13.72	634,258	13.90	123,823	13.85	9.80	14.78	1.22	9.38
2	Equity Bank Kenya Ltd	13.57	2	877,415	14.57	652,204	14.30	106,400	11.90	11.97	18.04	0.73	5.59
3	NCBA Bank Kenya PLC	9.72	3	546,734	9.08	443,820	9.73	78,643	8.80	32.46	48.95	9.41	72.27
4	Co-operative Bank of Kenya Ltd	9.42	4	540,387	8.97	399,441	8.76	94,920	10.62	3.73	5.63	0.89	6.86
5	Absa Bank Kenya Plc	6.37	5	428,746	7.12	275,546	6.04	54,353	6.08	1.94	2.93	0.26	2.01
6	Standard Chartered Bank (K) Ltd	5.70	6	335,111	5.56	265,852	5.83	52,479	5.87	0.27	0.41	0.05	0.38
7	Diamond Trust Bank Kenya Limited	5.64	7	326,377	5.42	237,455	5.21	57,567	6.44	0.55	0.82	0.01	0.11
8	I M Bank Limited	5.31	8	307,802	5.11	235,557	5.16	51,920	5.81	0.19	0.29	0.02	0.15
9	Stanbic Bank Kenya Ltd	5.22	9	319,199	5.30	242,384	5.31	46,512	5.20	0.24	0.36	0.06	0.47
	Sub-Total	**74.76**		**4,508,166**	**74.86**	**3,386,517**	**74.24**	**666,617**	**74.59**	**61.16**	**92.22**	**12.65**	**97.21**
	Medium Peer Group (1-5%)												
1	Bank of Baroda (Kenya) Limited	3.14	10	180,381	3.00	149,920	3.29	28,832	3.23	0.06	0.09	0.00	0.03
2	Prime Bank Ltd	2.43	11	126,482	2.10	97,222	2.13	28,111	3.15	0.04	0.06	0.00	0.03
3	National Bank of Kenya Ltd	2.31	12	146,543	2.43	124,113	2.72	16,365	1.83	0.82	1.24	0.04	0.31
4	Citibank N.A. Kenya	2.30	13	130,940	2.17	103,206	2.26	22,536	2.52	0.00	0.00	0.00	0.00
5	Family Bank Ltd.	1.81	14	111,683	1.85	84,712	1.86	15,164	1.70	2.46	3.71	0.18	1.40
6	Bank of India	1.72	15	86,867	1.44	65,776	1.44	20,708	2.32	0.01	0.02	0.00	0.00
7	Ecobank Kenya Ltd	1.49	16	103,388	1.72	94,549	2.07	6,426	0.72	0.18	0.27	0.01	0.07
8	SBM Bank Kenya Ltd	1.21	17	81,958	1.36	61,503	1.35	8,596	0.96	0.21	0.31	0.02	0.14
	Sub-Total	**16.41**		**968,243**	**16.08**	**781,001**	**17.12**	**146,738**	**16.42**	**3.78**	**5.71**	**0.26**	**1.97**
	Small Peer Group < 1%												
1	HFC Ltd	0.86	18	52,098	0.87	38,395	0.84	7,866	0.88	0.41	0.62	0.01	0.09
2	Victoria Commercial Bank Limited	0.74	19	43,471	0.72	34,048	0.75	6,988	0.78	0.01	0.01	0.00	0.01
3	Guaranty Trust Bank	0.71	20	34,301	0.57	22,315	0.49	9,747	1.09	0.02	0.03	0.00	0.01
4	Bank of Africa Ltd	0.65	21	43,350	0.72	27,796	0.61	5,621	0.63	0.08	0.12	0.01	0.07
5	Gulf African Bank	0.62	22	37,678	0.63	29,171	0.64	5,473	0.61	0.10	0.15	0.02	0.17
6	Sidian Bank Ltd	0.60	23	41,410	0.69	27,576	0.60	4,746	0.53	0.18	0.27	0.02	0.15
7	African Banking Corporation Ltd	0.57	24	36,341	0.60	31,449	0.69	3,920	0.44	0.03	0.05	0.00	0.01
8	Habib Bank AG Zurich	0.46	25	28,554	0.47	24,583	0.54	3,327	0.37	0.01	0.01	0.00	0.00
9	Credit Bank Ltd	0.41	26	25,893	0.43	20,365	0.45	3,328	0.37	0.04	0.06	0.00	0.01
10	First Community Bank Ltd	0.38	27	24,701	0.41	21,513	0.47	2,467	0.28	0.08	0.12	0.00	0.02
11	Guardian Bank Limited	0.31	28	17,736	0.29	14,348	0.31	2,989	0.33	0.01	0.01	0.00	0.01
12	Development Bank of Kenya Ltd	0.30	29	17,289	0.29	8,937	0.20	3,823	0.43	0.00	0.00	0.00	0.01
13	Mayfair CIB Bank Limited	0.29	30	13,461	0.22	8,903	0.20	4,153	0.46	0.00	0.00	0.00	0.00
14	Kingdom Bank Limited	0.29	31	31,691	0.53	6,380	0.14	1,884	0.21	0.20	0.31	0.01	0.11
15	DIB Bank Kenya Ltd	0.29	32	15,523	0.26	11,926	0.26	3,163	0.35	0.00	0.01	0.00	0.01
16	M-Oriental Commercial Bank	0.26	33	13,657	0.23	10,343	0.23	3,118	0.35	0.00	0.01	0.00	0.00
17	Consolidated Bank of Kenya Limited	0.22	34	14,283	0.24	11,386	0.25	1,533	0.17	0.05	0.07	0.00	0.03
18	Paramount Bank Ltd	0.22	35	12,448	0.21	10,197	0.22	2,059	0.23	0.01	0.01	0.00	0.02
19	Access Bank (Kenya) PLC	0.21	36	13,211	0.22	10,899	0.24	1,549	0.17	0.11	0.16	0.00	0.03
20	UBA Kenya Bank Ltd	0.19	37	13,598	0.23	12,240	0.27	823	0.09	0.01	0.01	0.00	0.01
21	Middle East Bank (K) Ltd	0.18	38	11,186	0.19	9,565	0.21	1,400	0.16	0.00	0.00	0.00	0.00
22	Spire Bank Limited	0.05	39	3,855	0.06	1,781	0.04	413	0.05	0.02	0.03	0.00	0.03
	Sub-Total	**8.82**		**545,738**	**9.06**	**394,117**	**8.64**	**80,389**	**8.99**	**1.37**	**2.07**	**0.11**	**0.81**
	Grand-Total	**100**		**6,022,147**	**100.00**	**4,561,635**	**100**	**893,745**	**100.00**	**66.32**	**100.00**	**13.02**	**100.00**

Source: Commercial Banks Published Financial Statements (December 2021)

Appendix V: Letter of Introduction

Hannah Ndarwa
Pan Africa Christian University (PACU),
P.O Box 56875 – 00200
Nairobi-Kenya.

TO WHOM IT MAY CONCERN,

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH INFORMATION

I am a leadership student at Pan Africa Christian University (PACU). I am conducting research on influence of transformational leadership on risk-based pricing model by commercial banks in Kenya. I would like to enlist your help in gathering data for this study by completing a research questionnaire that will be shared with you as a google document.

Please be assured that any information you provide will be kept private and used solely for the purposes of this research.

Please accept my heartfelt gratitude.

Yours faithfully,

Hannah Ndarwa
Tel: +254722646520

Appendix VI: Research authorization and Ethics Clearance Letter

PAN AFRICA CHRISTIAN UNIVERSITY

P.O. Box 56875 - 00200
Nairobi, Kenya
Lumumba Drive, Roysambu
off Kamiti Rd, off Thika Rd
Tel: 0734 400694/0721 932050
Email: enquiries@pacuniversity.ac.ke
website: www.pacuniversity.ac.ke

11TH April, 2023

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION & ETHICS CLEARANCE LETTER FOR NDARWA HANNAH REG. NO: MALD/18065/0/20

Greetings! This is an introduction letter for the above named person a final year student at Pan Africa Christian University (PAC University), pursuing Master of Arts in Leadership.

She is at the final stage of the programme and she is preparing to collect data to enable her finalize on the thesis. The thesis title is ***"Influence of Transformational Leadership on Risk-Based Pricing Model: A Case of Kenya Commercial Banks within Nairobi County."***

We kindly request that you allow her obtain a research permit so as to proceed and collect data from selected branches of Kenya Commercial Banks within Nairobi County.

Kind Regards,

PAN AFRICA CHRISTIAN UNIVERSITY
REGISTRAR
P.O. Box 56875 - 00200
TEL: 0721 932050 0734 400694
NAIROBI,KENYA

Dr. Lilian Vikiru
Registrar Academic Affairs
Pan Africa Christian University
Lumumba Drive, Roysambu, off Kamiti Rd, off Thika Rd
P.O Box 56875-00200, Nairobi, Kenya
Tel: +254 721-932050/726-595863/734-400694
Email: registrar.aa@pacuniversity.ac.ke
Website: www.pacuniversity.ac.ke

Appendix VII: Certificate of Ethical Clearance

Certificate of Ethical Clearance

Pan Africa Christian University
Thika Road Campus | Valley Road Campus
P.O. Box 56875-00200 | +254 730955000 | +254 730955501/2
enquiries@pacuniversity.ac.ke | www.pacuniversity.ac.ke

INSTITUTIONAL SCIENTIFIC ETHICSREVIEW COMMITTEE
(IS E R C)

This Certificate is awarded to

Hannah Ndarwa

For the research titled

INFLUENCE OF TRANSFORMATIONAL LEADERSHIP ON RISK-BASED PRICING MODEL: A CASE OF KENYA COMMERCIAL BANKS WITHIN NAIROBI COUNTY

Ref/PAC/ISERC/012/3/23

having complied with PAC University Institutional Scientific Ethics Review Committee's guidelines and Standard Operating Procedures for ethical clearance.

is Certificate is issued subject to compliance with the following requirements:

i. Before commencing the study, you are required to obtain a Research License from the NationalCommission for Science, Technology and Innovation (NACOSTI) as well as other institutional clearances as and where needed.
ii. Only approved documents including research instruments and informed consent forms will beused.
iii. All changes including amendments and/or deviations are to be submitted for review andclearance by PAC University Institutional Scientific Ethics Review Committee before use.
iv. Any expected or unexpected changes that may increase the risks to study participants or affectthe integrity of the study must be reported in writing to PAC University Institutional Scientific Ethics Review Committee within two days.
v. Any request for renewal or approval must be submitted to PAC University Institutional ScientificEthics Review Committee at least four weeks prior to the expiry of this Certificate and must be accompanied by a comprehensive progress report to support the renewal.

Date of issue	06/04/2023	**Expiry date**	06/04/2024

DR.JANE KINUTHIA

Secretary PAC_ISERC

Appendix VIII: NACOSTI License

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **450303**

Date of Issue: **14/April/2023**

RESEARCH LICENSE

This is to Certify that Ms.. Hannah Wangui Ndarwa of Pan Africa Christian University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: INFLUENCE OF TRANSFORMATIONAL LEADERSHIP ON RISK-BASED PRICING MODEL: A CASE OF KENYA COMMERCIAL BANKS WITHIN NAIROBI COUNTY for the period ending : 14/April/2024.

License No: **NACOSTI/P/23/25290**

450303

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

See overleaf for conditions

THE SCIENCE, TECHNOLOGY AND INNOVATION ACT, 2013 (Rev. 2014)

Legal Notice No. 108: The Science, Technology and Innovation (Research Licensing) Regulations, 2014

The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under theScience, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be toregulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

CONDITIONS OF THE RESEARCH LICENSE

1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenyais a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), ComprehensiveNuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission theresearch is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor beforecommencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant GovernmentAgencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance withthe conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by theCommission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner asmay be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevantnational agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent ofstrategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a reportof its findings to the Commission for necessary action.

National Commission for Science, Technology andInnovation(NACOSTI),
Off Waiyaki Way, Upper Kabete,
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0735404245
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