Impact of Leadership Style on Organizational Climate in the Nigerian Insurance Industry

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Citation

Abstract
This paper investigates the impact leadership style on organizational climate in the Nigerian insurance industry. The empirical study was conducted via a multi-respondent survey of 15 insurance companies quoted on the floor of Nigerian stock exchange as at 31st December, 2013. Using the framework from Ojokuku., Odetayo and Sajuyigbe (2012), factors manifesting organizational climate were canonically correlated and regressed on the key factors manifesting leadership styles. While leadership style was measured using six dimensions (charismatic, transactional, transformational, autocratic, bureaucratic and democratic) proposed by Ojokuku., Odetayo and Sajuyigbe (2012), organizational climate was measured through a set of questionnaire that we developed based on the eight organizational climate dimension proposed by Litwin and stringer (1968). Findings based on the survey revealed that leadership style positively affected organizational climate in the Nigerian insurance industry. Specifically, our results suggest that apart from autocratic and bureaucratic leadership styles; transactional leadership style, democratic leadership style, charismatic leadership style, and transformational leadership style are the key leadership styles that influenced organizational climate in the Nigerian insurance industry. The model provides predictive implications on improved organizational climate, given the activities of critical variables manifesting successful leadership styles.

1. Introduction

The increasing number of studies focusing on the relationship between leadership styles and organizational climate in the past few years were fuelled by the argument that access to capital and technology, are becoming less effective as they can be easily imitated by competing organizations (Bennis, 2007; Hackman & Wageman, 2007; Koys and De Cotiis, 1991; Abdulkadir, 2012, 2009). Consequently, human resource is argued to represent an asset that can provide a source of competitive advantage because it’s often difficult to duplicate by competitors and hard to substitute even within the same organization (Abdulkadir, 2012). Consequently, effective leadership implies a managerial orientation that ensures that human resources are employed in a manner conducive to the attainment of organizational goals and mission (Bennis, 2007). This is made possible with the adoption of appropriate leadership styles in the day-to-day activities of an organization. In
other word, leadership style is hailed as one of the current drivers of competitive advantage within organizations, helping them to survive in the more competitive, customer-oriented commercial environment of today. Hence, leadership style is viewed as the combination of traits, characteristics, skills and behaviours that leaders use when interacting with their subordinates (Jeremy et al., 2012).

In addition, consolidation in the Nigerian insurance industry has seen the adoption of appropriate leadership styles as a strategic imperative by many firms. Many insurance firms in Nigeria have adopted several leadership styles as enablers to facilitate related shifts and become more adaptable so as to operate better in such dynamic business environments. Nevertheless, the effectiveness of leadership styles in this context of performance-related outcomes has hitherto not been investigated. In addition, past empirical research has mostly investigated the effects of leadership styles on financial performance (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007). However, very few studies have examined the impact of leadership style on organizational performance (Hackman & Wageman, 2007; Awolusi, 2013) or intangible performance measures, such as organizational climate (Ojokuku et al., 2012; Bennis, 2007; Hackman & Wageman, 2007). Consequently, the main objective of this study is to examine the impact leadership style on organizational climate in the Nigerian insurance industry. The specific objectives are as follows:

- To what extent is the relationship between charismatic leadership style and organizational climate in Nigerian insurance industry?
- What relationship exists between transactional leadership style and organizational climate in Nigerian insurance industry?
- To what extent is the relationship between transformational leadership style and organizational climate in Nigerian insurance industry?
- What relationship exists between autocratic leadership style and organizational climate in Nigerian insurance industry?
- To what extent is the relationship between bureaucratic leadership style and organizational climate in Nigerian insurance industry?
- What relationship exists between democratic leadership style and organizational climate in Nigerian insurance industry?

2. Review of Relevant Literature

2.1. Theoretical Frameworks

This study was anchored on the transformational-transactive theory of leadership. This theory differentiates “ordinary” from “extraordinary” leadership (transactional and transformational leadership); where followers compliance is exchanged for expected rewards, as well as increasing followers’ consciousness levels about the importance and value of designated outcomes and ways of achieving them (Ojokuku et al., 2012; Bennis, 2007). In addition, most modern leadership theories identified five leadership styles (charismatic leadership, transactional leadership, transformational leadership, visionary leadership, and culture-based leadership); these leadership styles centered around McGregor’s Theory ‘X and Y’ assumptions (Ojokuku et al., 2012; Bennis, 2007; Hackman & Wageman, 2007). Other relevant theories were deduced from existing theories within organization, marketing, and economic theories. Under economic perspective, are market power theory, transaction cost economics, increasing returns theory and resource-based theory. The market power theory is concerned with the ways in which firms can improve their competitive success, which is the ultimate goal of a viable leadership style (Bennis, 2007). In addition, transaction cost economics holds an assumption that leadership styles are implemented in order to lower the transaction costs, while resource-based view suggests that valuable firm resources (human) are usually scarce, imperfectly imitable, and lacking in direct substitutes; It is about producing the most value from one's existing capabilities and resources by combining these with others' sources of advantage (Bennis, 2007; Hackman & Wageman, 2007).

2.2. Conceptual and Empirical Review

A leader is person who influences, directs, and motivates others to perform specific tasks and also inspire his subordinates for efficient performance towards the accomplishment of the stated corporate objectives (Ojokuku et al., 2012; Bennis, 2007). Consequently, leadership style is the manner and approach of providing direction, implementing plans, and motivating people. According to Bennis (2007), the relationships between the leader and employee, as well as the quality of the organizational climate, are significantly influenced by the leadership style adopted by the leader (Hackman & Wageman, 2007). Effective leadership in organization, therefore, creates vision of the future and to develop a strategy for moving towards that vision and implementation of the strategy (Ojokuku et al., 2012; Bennis, 2007; Hackman & Wageman, 2007).

According to Bennis (2007), leadership style refers to a kind of relationship whereby someone uses his ways and methods to make many people work together for a common task. When leadership styles are properly implemented, the incremental benefits accrued can be extremely relevant, leveraging most of the key strategic drivers in organizations (Crosby, 1979; Feigenbaum, 1951; Juran et al., 1974). Many prior studies have also revealed that successful leadership styles enable different ways to manage business products and services, inducing a positive impact on business performance. In this study, leadership style was measured using six dimensions (charismatic, transactional, transformational, autocratic, bureaucratic and democratic) proposed by Ojokuku et al. (2012).

Charismatic leaders have vision, as well as a personality...
that motivates followers to execute that vision; as a result, it provides fertile ground for creativity and innovation (Ojokuku et al., 2012; Bennis, 2007; Hackman & Wageman, 2007). This leadership style is based upon strength of personality and the consequential legion of happy followers, but few future leaders (Ojokuku et al., 2012).

A transactional leader is always willing to give you something (including a good performance review, a raise, a promotion, new responsibilities or a desired change in duties) in return for following them. It is operationalized in this study as the exchange of rewards and targets between employees and management (Juran et al., 1974).

On the other hand, transformational leadership style focuses on the development of followers and their needs. This is by specially focusing on the development of value system of employees, their motivational level and moralities with the development of their skills (Ojokuku et al., 2012; Bennis, 2007). It also serves as motivational tool by helping subordinates to achieve their goals working in the organizational setting.

According to Ojokuku et al. (2012) and Bennis (2007), autocratic leaders are classic “do as I say” types. These leaders retain for themselves the decision-making rights, and may damage an organization irreparably as they force their ‘followers’ to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like (Ojokuku et al., 2012).

In bureaucratic leadership style, leaders create, and rely on, policy to meet organizational goals. These leaders often rely on a stated policy in order to convince followers to get on board, and are usually committed to procedures and processes instead of people (Crosby, 1979; Feigenbaum, 1951; Juran et al., 1974).

Lastly, democratic leadership style can be described as one where decision-making is decentralized and shared by subordinates (Ojokuku et al., 2012). However, the greatest problem with democratic leadership is its underlying assumption that everyone has an equal stake in an outcome as well as shared levels of expertise with regard to decisions (Bennis, 2007; Hackman & Wageman, 2007; Vroom & Jago, 2007).

2.3. Organizational Climate

The term organizational climate has been defined in numerous ways. Organizational climate is defined as a global impression of one’s organization and personal impact of the work environment, which influences the individual’s work behaviors and job-related attitudes; it describes the perception of employees towards their organizations which would link to work attitude formation (Michael, 2010). In this study, organizational climate is viewed as the average meanings that employees attach to a particular work setting and how work environments are cognitively appraised and represented in terms of their meaning and significance for individual employees in organizations (Abdulkadir, 2012). However, in this study, organizational climate was defined and measured through a set of questionnaire that we developed based on the eight organizational climate dimension proposed by Litwin and stringer (1968).

The eight typical dimensions of organizational climate, according to Litwin and stringer (1968), are as follows: Structures (feelings about constraint and freedom to act and the degree of formality or informality in the working atmosphere); Responsibility (the feeling of being trusted to carry out important work); Risk (the sense of riskiness and challenge in the job and in the organization); Warmth (the existence of friendly and informal social groups); Support (the perceived helpfulness of managers and co-workers); Standards (the perceived importance of implicit and explicit goals and performance standards; the emphasis of doing a good job); Conflict (the feelings that managers and other workers want to hear different opinion); Identity (the feeling that you belong to a company; that you are valuable member of a working team) (Koys and De Cotiis, 1991; Abdulkadir, 2012; Budhwar, 2000; Jensen, 2003; James and Jones, 1974).

![Figure 1. Relationship between Leadership style and Organizational Climate.](image-url)
2.4. Relationship Between Leadership Styles and Organizational Climate

Few studies have been conducted in the area of leadership styles and organizational climate (Abdulkadir, 2012; Ferris et al., 1990). Most research showed that leadership style has a significant relation with organizational climate, and different leadership styles may have a positive correlation or negative correlation with the organizational performance measures, depending on the variables used by researchers (Abdulkadir, 2012; Ferris et al., 1990; Fu-Jin et al., 2010). Fu-Jin et al. (2010) also opine that when executives use their leadership style to demonstrate concern, care and respect for employees, it would increase interest of employees in their work and enable them to put up better performance, thereby affecting their organizational climate (Fu-Jin et al., 2010). Many other studies also confirm a positive relationship between leadership style and organizational climate (Abdulkadir, 2012; Ferris et al., 1990). Consequently, based on these previous literatures concerning leadership styles and organizational climate, and in order to achieve the objectives designed for this study, the following research hypotheses are stated:

Hypothesis One (H1): charismatic leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

Hypothesis Two (H2): Transactional leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

Hypothesis Three (H3): Transformational leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

Hypothesis Four (H4): Autocratic leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

Hypothesis Five (H5): Bureaucratic leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

Hypothesis Six (H6): Democratic leadership styles have significant effect on organizational climate of Nigerian Insurance firms.

(H1), (H2), (H3), (H4), (H5), and (H6) were set to examine the effects of leadership styles on organizational climate in the Nigerian Insurance industry.

3. Research Methodology

Survey research design was adopted in this study. This involved the use of questionnaire, as the primary source of data collection. This is to enable generalization from a sample to a population, allowing in this sense, to establish inferences over the entire population (Sanda and Awolusi, 2014; Awolusi, 2012; Khong, 2005). The population of this study is made up of all the insurance companies operating in the Nigeria. The study made use of a sampling frame consisting of 15 insurance companies listed on the Nigerian Stock Exchange (NSE) as at 10th December, 2013. The unit of analysis in this study is the firm. Since, the unit of analysis is the firm, the scores for each variable was averaged and average over the all the respondents for each company. Consequently, a self designed questionnaire was administered to both junior, senior and management staff of the participating insurance firms. From a time dimension, this research adopts a one-time cross-sectional perspective. To get insights into the essential leadership styles and its effects on organizational climate, in the Nigerian context, all items representing the various constructs were validated and accepted individually by three professors and five experts in organizational management. Recommendations from experts were processed after effecting necessary modifications and then, the final version of the instrument was accepted (Akinruwa., Ibojo, and Awolusi, 2013; Bass, 1990).

During the main study a multi-stage sampling method was adopted. Proportionate sampling method was used based on the total staff strength and the proportion of junior, senior and management staff in each selected insurance firms. This was followed by random sampling method, in selecting the final respondents for each firm, based on the total allotted questionnaires (Onikoyi and Awolusi, 2015; Yukl, 2002). In all, the total questionnaire was settled at 502, and same number was delivered to all participating firms. In the questionnaire, participants were asked to answer two important sections: one with regards to the leadership styles and the other to organizational climate. In leadership styles, they were asked to rate the degree of usefulness of 54 variables in association with their firms’ leadership styles; in organizational climate, they were also asked to rate eight (8) variables. Each of the variables contained questions with the rating based on an interval scale from 1 to 5, where 1 is “strongly disagree” and 5 is “strongly agree”. The not applicable or no comment option was included, so as not to force the respondents, by restricting them to the available options (Sanda and Awolusi, 2014; Burns, 1978; Bontis, 1998; Mustapha, Fakokunde and Awolusi, 2014).

4. Results and Discussion of Findings

From the 502 total distributed questionnaires, 350 questionnaires were returned (giving a 69.7% response rate). Out of the returned 350 questionnaires, 20 were discarded due to incorrect fillings. Consequently, 330 questionnaires were analyzed to test the hypothesized relationships between leadership styles and organizational climate in the Nigerian insurance industry. Data collected were analyzed using canonical correlation and regression analysis (Hair et al., 1998, 1995; Fisher, 2005; Onikoyi, Awolusi, 2014).

4.1. Correlation Analysis

As shown in Table 1, both autocratic and bureaucratic leadership styles have negative and insignificant relationship with organizational climate with a correlation (r) of -0.11 and -0.13 respectively. The remaining constructs have a significant positive relationship with organizational climate.
organizational climate measures (Graybill, 1961; Sohel and Roger, 2003). Based on the criteria suggested by Hair et al. (1998), all the canonical pair was statistically significant, except autocratic and bureaucratic leadership styles. In addition, the canonical correlation of 0.5666 was considered moderate. The redundancy index of 0.1221 was also found to be quite low (Sohel and Roger, 2003). In preference to the use of canonical weights, the canonical cross-loadings (Hair et al., 1995; Sohel and Roger, 2003), table 2 also shows the canonical cross-loadings for the first canonical pair. A loading of at least 0.3000 is considered significantly different from zero at 0.05 level of significance (Graybill, 1961; Sohel and Roger, 2003); accordingly, each of the dependent variables is significantly related to the independent canonical variate- canonical variate representing leadership styles (Sohel and Roger, 2003; Gunu, 2009; Ho, 2000; Holmes-Smith, 2001). On the other hand, all independent variables (Leadership styles) except for autocratic and bureaucratic leadership styles are significantly related to the dependent canonical variate (Khong and Mahendhiran, 2006; Sila and Ebrahimpour, 2003; Levitt, 1972).

### 4.2. Regression Analysis

#### Table 2. Results of canonical correlation analysis.

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Mean</th>
<th>S.D</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charismatic leadership style</td>
<td>4.22</td>
<td>0.37</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transactional leadership style</td>
<td>4.68</td>
<td>0.35</td>
<td>0.54**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transformational leadership style</td>
<td>3.09</td>
<td>0.62</td>
<td>0.36**</td>
<td>0.45**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Autocratic leadership style</td>
<td>3.87</td>
<td>0.18</td>
<td>-0.13</td>
<td>0.04</td>
<td>0.35**</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bureaucratic leadership style</td>
<td>4.59</td>
<td>0.23</td>
<td>0.09</td>
<td>0.16</td>
<td>0.23</td>
<td>-0.11</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Democratic leadership style</td>
<td>2.19</td>
<td>0.67</td>
<td>0.46*</td>
<td>0.12</td>
<td>0.49**</td>
<td>0.59</td>
<td>0.54**</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Organizational Climate</td>
<td>3.41</td>
<td>0.59</td>
<td>0.31**</td>
<td>0.34*</td>
<td>-0.03</td>
<td>-0.11</td>
<td>-0.13</td>
<td>0.44*</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note: *p≤0.1, **p≤0.05, ***p≤0.001

In addition, the result of the canonical correlation (Table 2) is useful for predictive purposes. It was basically designed to analyse the relationship between leadership styles and organizational climate measures (Graybill, 1961; Sohel and Roger, 2003). Based on the criteria suggested by Hair et al. (1998), all the canonical pair was statistically significant, except autocratic and bureaucratic leadership styles. In addition, the canonical correlation of 0.5666 was considered moderate. The redundancy index of 0.1221 was also found to be quite low (Sohel and Roger, 2003). In preference to the use of canonical weights, the canonical cross-loadings (Hair et al., 1995; Sohel and Roger, 2003), table 2 also shows the canonical cross-loadings for the first canonical pair. A loading of at least 0.3000 is considered significantly different from zero at 0.05 level of significance (Graybill, 1961; Sohel and Roger, 2003); accordingly, each of the dependent variables is significantly related to the independent canonical variate- canonical variate representing leadership styles (Sohel and Roger, 2003; Gunu, 2009; Ho, 2000; Holmes-Smith, 2001). On the other hand, all independent variables (Leadership styles) except for autocratic and bureaucratic leadership styles are significantly related to the dependent canonical variate (Khong and Mahendhiran, 2006; Sila and Ebrahimpour, 2003; Levitt, 1972).

#### Table 3. Testing the Hypotheses.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>β</th>
<th>p-value</th>
<th>Significant (yes/no)</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Autocratic leadership style with Organizational Climate</td>
<td>0.05</td>
<td>0.39</td>
<td>0.0111</td>
<td>Yes</td>
</tr>
<tr>
<td>Bureaucratic leadership style with Organizational Climate</td>
<td>0.05</td>
<td>0.12</td>
<td>0.2111</td>
<td>No</td>
</tr>
<tr>
<td>Democratic leadership style with Organizational Climate</td>
<td>0.05</td>
<td>0.09</td>
<td>0.1012</td>
<td>No</td>
</tr>
</tbody>
</table>

Note: α level denotes significant level

In Table 2 above shows that leadership styles has a positive effect on organizational climate (p≤0.0001). This suggests that leadership styles significantly influenced organizational climate in the Nigerian Insurance industry. Specifically, our results suggest that apart from autocratic and bureaucratic leadership styles; transactional leadership style, democratic leadership style, charismatic leadership style, and transformational leadership style are the key leadership styles that influenced organizational climate in the Nigerian insurance industry.

### 4.3. Discussion of Findings

From the results in tables 1 and 2, there is a strong positive relationship between leadership styles and organizational climate with a multiple correlation (R) of 0.5341. The adjusted R² of 0.4756 also implies that 47.56% of the variations in organizational climate are adequately explained by the leadership styles adopted by the individual firms. A positive
and significant relationship obtained in this study agrees with previous studies (Bennis, 2007; Hackman & Wageman, 2007; Koys and De Cotis, 1991; Abdulkadir, 2012; Ojokuku at al., 2012). However, contrary to these studies (Bennis, 2007; Hackman & Wageman, 2007; Koys and De Cotis, 1991; Abdulkadir, 2012; Ojokuku at al., 2012), both autocratic and bureaucratic leadership styles have an insignificant negative relationship with organizational climate. This may be due to inexperience of autocratic leaders, with leadership thrust upon them in the form of a new position or assignment that involves people management (Ojokuku at al., 2012). Autocratic leaders can also damage an organization climate as they force their ‘followers’ to execute strategies and services in a very narrow way, based upon a subjective idea of what success looks like. Lack of shared vision and little motivation beyond coercion may also impact negatively on organizational climate (Michael, 2010). In addition, the negative influence of bureaucratic leaders style may also arise from the strong commitment to procedures and processes instead of people, and as a result leadership’s greatest benefits, motivating and developing people, are ignored by bureaucratic leaders (Michael, 2010).

5. Conclusion and Implications for Practice

5.1. Conclusion

An empirical framework was created to assess specific relationships between leadership style and organizational climate in the Nigerian Insurance industry. The results obtained from this study indicate that leadership styles is moderately practiced by companies operating in the Nigerian insurance industry and that organizational climate is reasonably enhanced by four out of the six leadership styles tested. The paper also associated the effects of successful leadership styles to improved organizational climate. As a result, the measurement and structural equation contrived offered a mathematical interpretation of how leadership styles adopted by an organization can affect organizational climate. The study, to this extent, has provided evidence for the value-added by leadership styles in organizations. Consequently, to achieve employee commitment, the weather of the work place has to be supportive to lead to and sustain staff motivation and high performance (Litwin and Stringer, 1968).

5.2. Managerial and Theoretical Implications

Based on the findings in this study, managers should place less emphasis on both autocratic and bureaucratic leadership styles by becoming more involved in guiding their subordinates; public managers should formulate and implement effective reward and recognition systems. Furthermore, managers should strive to become role models to their subordinates, inspire subordinates by providing meaning and challenge to work, stimulate subordinate efforts to become more innovative and creative, as well as, pay greater attention to each individual’s need for achievement and growth. The model in this study is expected to be used by insurance firms in composing strategies to optimize their leadership styles and the consequential impact on organization climate. This research provides incisive insights regarding the respective effect of leadership styles and organizational climate in the Nigerian insurance industry. Consequently, this study is relevant to Managers and other stakeholders in the Nigerian insurance industry, as regards areas of applying the mix of all the leadership variables with due consideration to the situation and nature of task assigned to subordinates. Also, the study will help decision makers to understand the critical factors that affect the organizational climate in which their workers operate and the strategic options to be adopted to address them. Theoretically, this study seems to be one of the few studies to use a combination of perceptual measures of organizational climate, through a set of questionnaire developed based on the eight organizational climate dimension proposed by Litwin and stringer (19680. In general, this research provides important lessons in terms of the consequences of a particular leadership style being adopted in a service oriented organization.

However, since the perceptual views of junior, senior and management staff in each organization was collected and for the fact that few respondents were chosen from each participant insurance firms, it is not unreasonable to claim that this study suffers from the common limitation of survey research. However, additional guidelines might be used in future studies to minimize this potential limitation, which may include the use different methods to measure both the leadership styles and organizational climate. Objective measure of organizational performance measures may also be explored in future studies. In addition, due to the limitations of our data, we did not investigate the impact of organizational strategy. Further research is therefore needed to understand how organization’s strategies influence the choice of leadership styles and its impact on the various performance indices.

References


