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INCLUSIVE LEADERSHIP AND PERFORMANCE MANAGEMENT IN MICROFINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA

[1]Robert Kipngenoh Langat, and [2] Mary Kamaara

[1]Masters of Science, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya

[2]Lecturer, Jomo Kenyatta University of Agriculture and Technology [JKUAT], Kenya

ABSTRACT

The general objective of this study was to examine the influence of inclusive leadership on performance management in microfinance institutions (MFIs) in Nairobi City County, Kenya. Specifically, the study examined the influence of role modelling and perceived equity and fairness on performance management. The study was guided by Servant Leadership Theory and Social Exchange Theory. A descriptive survey research design was adopted. The target population comprised employees from the 14 licensed microfinance institutions operating in Nairobi City County, Kenya. Using Godden's (2004) sample size determination formula for an unknown population, a sample of 138 respondents was selected, of whom 119 successfully participated in the study. Primary data were collected using structured questionnaires. A pilot study was conducted to establish the validity and reliability of the research instrument. The collected data were coded and analyzed using Statistical Package for the Social Sciences (SPSS) Version 22. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the data, while tables, bar charts, and pie charts were used for presentation. Diagnostic tests comprising normality, multicollinearity, heteroscedasticity, and autocorrelation were conducted to ascertain the suitability of the regression model. Inferential analysis was undertaken using Pearson's correlation and multiple linear regression analysis to determine the relationships between the study variables. The findings established that role modelling ($r = 0.689$, $\beta = 0.325$, $p < 0.05$) and perceived equity and fairness ($r = 0.707$, $\beta = 0.327$, $p < 0.05$) each had a positive and statistically significant influence on performance management in the microfinance institutions. The study concludes that inclusive leadership significantly enhances performance management through leaders who consistently demonstrate exemplary behaviour and foster fairness and equity in organizational processes. Such leadership practices strengthen employee trust, commitment, and engagement, thereby improving the effectiveness of performance management systems. The study recommends that microfinance institutions institutionalize ethical leadership practices that promote role modelling and strengthen fair and transparent performance management systems. It further recommends leadership development programmes that enhance leaders' capacity to demonstrate integrity, equity, and fairness while fostering an inclusive work environment that supports employee performance and organizational effectiveness.

Keywords: Inclusive leadership, role modelling, perceived equity and fairness, performance management, microfinance institutions, Servant Leadership Theory, Social Exchange Theory.

INTRODUCTION

Inclusive leadership has emerged as an important leadership approach in contemporary organizations because it promotes work environments where employees feel valued, respected, and empowered to contribute toward organizational goals. Organizations that embrace inclusive leadership benefit from improved employee morale, creativity, innovation, and overall organizational performance, enabling them to remain competitive in increasingly dynamic business environments (Bourke & Titus, 2019). Deloitte Australia (2016) further observes that inclusive leaders demonstrate characteristics such as awareness, courage, commitment, curiosity, cultural intelligence, and collaboration, which enable them to effectively manage diverse workforces and create environments that encourage participation and innovation (Bourke, 2016).

Although inclusive leadership has been conceptualized in different ways, this study focuses on role modelling and perceived equity and fairness as key dimensions of inclusive leadership. Role modelling refers to leaders' ability to demonstrate ethical behaviour, integrity, professionalism, and accountability that employees can emulate, while perceived equity and fairness reflects employees' perceptions that organizational decisions, opportunities, and performance management processes are administered impartially and consistently. Such leadership behaviours foster trust, commitment, and cooperation among employees, thereby strengthening organizational performance management systems (Carmeli et al., 2010; Javed et al., 2018).

The concept of inclusive leadership has increasingly gained recognition within the African context. Although modern organizations continue to institutionalize inclusive leadership practices, the philosophy of inclusion has long existed through the African Ubuntu philosophy, which emphasizes mutual respect, collective responsibility, and shared humanity. The Ubuntu principle, commonly expressed as *"Umuntu ngumuntu ngabantu"* (a person is a person through other persons), encourages organizational cultures characterized by respect, fairness, teamwork, participation, and strong interpersonal relationships (World Economic Forum, 2022; Mboule, 2023; Karsten & Illa, 2005). These values closely align with inclusive leadership behaviours that promote ethical role modelling and equitable treatment of employees.

Performance management is a systematic organizational process through which employee activities, behaviours, and outcomes are aligned with organizational goals. It encompasses goal setting, performance appraisal, continuous feedback, employee development, monitoring, recognition, and reward systems designed to improve both individual and organizational performance (Siraj & Hage, 2023). Effective performance management depends not only on well-designed systems but also on leadership behaviours that foster trust, fairness, transparency, and employee commitment.

Despite widespread adoption of performance management systems, many organizations continue to experience challenges that undermine their effectiveness. These include poorly designed performance indicators, inadequate communication, inconsistent implementation, limited employee involvement, resource constraints, and perceptions of unfairness in appraisal processes. Such weaknesses reduce employee confidence in performance management systems and negatively affect organizational performance (Cunha, Dinis-Carvalho, & Sousa, 2023; Lin & Kellough, 2019). Consequently, leadership behaviours that emphasize ethical conduct and fairness have become increasingly important in strengthening the effectiveness of performance management systems.

The microfinance sector provides an appropriate context for examining these relationships because of its significant contribution to financial inclusion and economic development. However, the sector continues to experience managerial challenges, including inadequate leadership capacity, employee retention difficulties, and increasing demands for improved organizational performance (Kayembe et al., 2021; Biswa et al., 2018). Addressing these challenges requires leadership approaches that demonstrate exemplary conduct while ensuring fairness in organizational policies and performance management practices. Accordingly, this study examined the influence of role modelling and perceived equity and fairness, as dimensions of inclusive leadership, on performance management in microfinance institutions in Nairobi City County, Kenya.

Statement of the Problem

Microfinance institutions (MFIs) in Kenya are grappling with significant performance management challenges, notably high non-performing loan (NPL) ratios and poor liquidity control. A 2019–2023 study revealed that many MFIs reported NPL rates so elevated they significantly undermined financial performance, often compounded by inadequate loan-loss provisioning (Kitonyi, Sang, & Muriithi, 2019). Additionally, research on Kenyan MFIs shows only a small minority—specifically U&I (2 %) and Sumac (1 %)—had positive return on assets (ROA), while the majority posted negative ROAs reaching –41 % and –25 % (Nyangeri, Tibbs, & Ngala, 2024). Performance management systems themselves tend to focus more on output than process measures, as formal MFIs adopt financial and non-financial metrics without sufficiently monitoring internal loan procedures or staff accountability (Waweru & Spraakman, 2012). Furthermore, one CBK review found that around 30 % of MFIs were either defunct or had ceased lending, underscoring deep-seated inefficiencies coupled with slow digital innovation (Chemtai, Okumu, & Kimutai, 2023). These combined factors point to a sector-wide issue in Kenya: weak performance management systems that fail to align strategic objectives with operational discipline, leading to chronic liquidity shortfalls, loan defaults, and institutional instability. To address these challenges, this study hypothesized that the adoption of inclusive leadership—characterized by openness, equity, and active engagement of diverse teams—can help align institutional goals with staff performance by fostering accountability, innovation, and trust across all levels of the organization. By empowering employees, valuing their input, and cultivating a culture of shared responsibility, MFIs can improve decision-making, reduce operational inefficiencies, and ultimately enhance financial sustainability.

Notably, inclusive leadership has emerged as a critical component for fostering successful performance of organizations (Babaita *et al*., 2023). The ideal situation entails a workplace culture where leaders embrace diversity in all its forms, actively seek to understand and integrate perspectives from all employees, and create an environment where everyone feels valued and included (Wang *et al*., 2019). In such an environment, employees are not only more engaged but also more likely to contribute their unique skills and insights, leading to enhanced innovation, productivity, and overall performance (Cai *et al*., 2018). According to Ashikali (2023), the social problem arises from the persistent prevalence of exclusionary practices and biases within many organizations, hindering the realization of inclusive leadership. Despite increasing awareness of the importance of diversity and inclusion, studies (Fagan et al., 2022; Roberson & Perry, 2022) indicate that significant gaps still exist between organizational rhetoric and actual implementation of inclusive leadership. Many leaders lack the necessary skills, awareness, and commitment to effectively navigate the complexities of diverse teams and create an inclusive culture (Clarke, 2023).

Inclusive leadership is expected to have a positive relationship with performance management. Leaders who foster teamwork, demonstrate exemplary behaviour, promote fairness and equity, and maintain openness in communication create an environment that motivates employees, enhances trust, encourages participation, and strengthens accountability. These leadership practices improve employee commitment, facilitate effective performance planning and feedback, and support the achievement of individual and organizational goals. Therefore, as inclusive leadership practices improve, the effectiveness of performance management is also expected to improve (Ashikali (2023). The study adopted the Inclusive Leadership Model developed by Carmeli, Reiter-Palmon, and Ziv (2010) to support the selection of the study variables. The model conceptualizes inclusive leadership as leadership behaviours characterized by openness, accessibility, and availability, which foster employees' sense of belonging, participation, trust, and engagement.

The knowledge gap lies in understanding the specific strategies and interventions that can bridge the divide between inclusive leadership and performance management. While research has identified broad principles and best practices for fostering inclusion, there remains a lack of comprehensive frameworks and evidence-based approaches tailored to different organizational contexts such as the MFIs. Thus, there was a pressing need for further empirical research and practical insights to inform the development of inclusive leadership strategies that effectively promote the management of performance across diverse work environments. Therefore, there was a need for this study to examine inclusive leadership and its influence on performance management in the MFIs in Nairobi County, Kenya.

Research Objectives

The general objective of this study was to examine the influence of inclusive leadership on the performance management in the microfinance institutions in Nairobi County, Kenya.

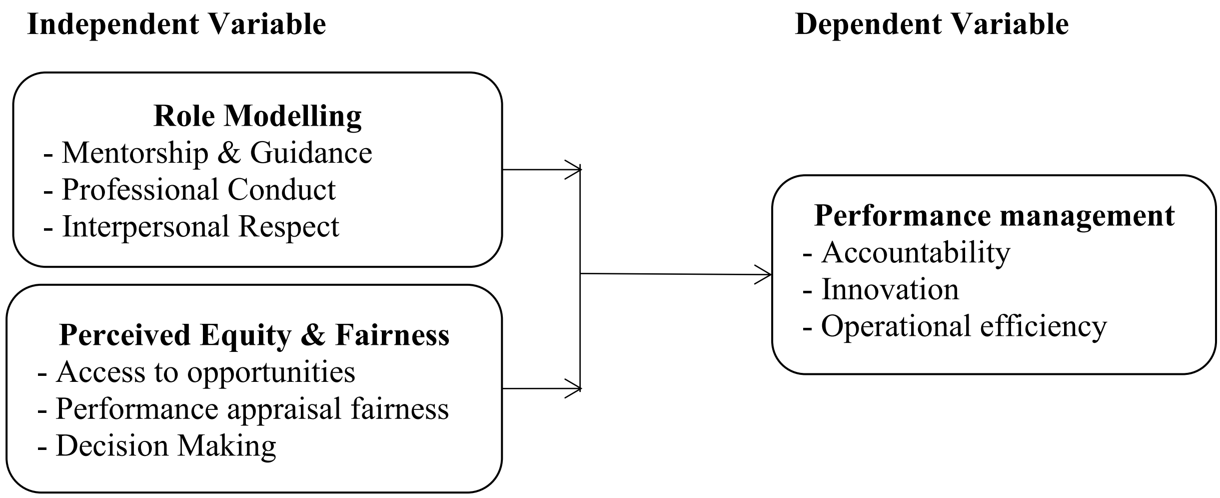
This study was further guided by the following specific objectives:

i. To establish the influence of role modelling on performance management in the microfinance institutions in Nairobi County, Kenya.
ii. To determine the influence of perceived equity and fairness on the performance management in the microfinance institutions in Nairobi County, Kenya.

Conceptual Framework

This study conceptualizes that the engagement of employees in the microfinance institutions is dependent on the inclusive leadership which forms the independent variable. The indicators of inclusive leadership as conceptualized in the study include role modelling, perceived equity and fairness. The relationship between the variables is shown in Figure 1.1.

Figure 1.1: Conceptual Framework



Source: Researcher, 2025

LITERATURE REVIEW

Theoretical Review

Servant Leadership Theory

Servant Leadership Theory is a leadership model that prioritizes service to others—especially subordinates—as the primary role of a leader. The theory was first introduced by Robert K. Greenleaf in 1970, who described a servant leader as one who leads by first serving others, emphasizing empathy, stewardship, and community building (Greenleaf, 1977). Unlike traditional leadership models that focus on hierarchy and authority, servant leadership inverts the power structure, positioning leaders as facilitators of employee growth and well-being. Over the years, scholars such as Spears (1995) and Liden et al. (2008) have expanded on Greenleaf's work, identifying key characteristics like listening, empathy, healing, awareness, persuasion, foresight, stewardship, and commitment to the growth of people.

The theory operates on several core assumptions: that leadership is not about control but service; that the success of an organization depends on how well leaders support the personal and professional development of their followers; and that organizations thrive when individuals are empowered and valued (Eva et al., 2019). It also assumes that ethical and moral behavior is central to effective leadership. Servant leaders are expected to serve first, lead second, and consistently demonstrate humility and ethical behavior—making them ideal role models. These assumptions align closely with inclusive leadership practices, especially the role-modelling dimension, where leaders are expected to embody the values that they promote within teams and institutions.

Advantages of servant leadership include increased employee engagement, improved team cohesion, and higher levels of trust and job satisfaction (Liden et al., 2008). Employees are more likely to emulate the behavior of servant leaders who demonstrate commitment, fairness, and compassion, thereby enhancing organizational performance. Moreover, servant leadership fosters a positive organizational culture centered on ethics, inclusivity, and service excellence—attributes that are critical in the microfinance sector. However, disadvantages exist as well. Servant leadership can be perceived as too passive or idealistic, especially in highly competitive or fast-paced environments. It may also be time-intensive, as it demands consistent engagement with employees' individual needs and long-term development goals (Eva et al., 2019).

When applied to MFIs, servant leadership theory is particularly relevant in examining the role-modelling style of inclusive leadership and its influence on performance management. MFIs operate in contexts that demand both social responsibility and financial sustainability, making ethical and employee-centered leadership critical. A servant leader in an MFI models behaviors such as integrity, empathy, and fairness, which can influence how employees perceive and engage with performance management systems. By embodying the values of inclusivity and support, servant leaders can foster an environment where performance goals are not only clearly defined but are also pursued with mutual respect, motivation, and ethical conduct.

Notably, servant leadership offers a robust framework for understanding how leaders who act as ethical role models can positively shape performance management practices within MFIs. Through their emphasis on service, ethics, and people development, servant leaders align with the core principles of inclusive leadership and can help build performance systems that are just, participatory, and impactful.

Social Exchange Theory

Social Exchange Theory (SET) is a foundational concept in social and organizational psychology that explains human interactions as a series of exchanges aimed at maximizing benefits and minimizing costs. Developed by sociologist George Homans in 1958 and later expanded by Peter Blau (1964) and Richard Emerson (1976), the theory suggests that relationships—whether personal or professional—are formed and maintained based on the perceived balance of give-and-take. In workplace settings, the theory implies that employees assess their relationship with the organization or its leaders by evaluating whether the support, recognition, and rewards they receive are proportional to their contributions and efforts (Blau, 1964).

SET operates on key assumptions, including rationality, reciprocity, and cost-benefit analysis. It posits that individuals act in ways that reward them with valued outcomes—such as trust, fairness, or compensation—and avoid actions that could result in penalties or losses. A critical assumption is that when employees perceive fairness in leadership actions (procedural and distributive justice), they are more likely to reciprocate with positive behaviors such as loyalty, commitment, and high performance (Cropanzano & Mitchell, 2005). Conversely, perceptions of inequity can lead to dissatisfaction, reduced motivation, and disengagement.

The advantages of Social Exchange Theory include its strong explanatory power in understanding employee-employer dynamics, especially concerning trust, fairness, and organizational commitment. It supports the design of HR policies and leadership practices that prioritize mutual benefit, thereby enhancing employee satisfaction and performance outcomes. Moreover, SET provides a flexible framework applicable across cultural and organizational contexts. However, the theory also has disadvantages. It assumes rational decision-making, which may overlook emotional, irrational, or unconscious motivations in behavior. Additionally, it focuses primarily on dyadic relationships (e.g., leader-subordinate), which may oversimplify the complexity of group dynamics and organizational structures (Molm, 2003).

In this study, theory was considered to be particularly valuable in examining how perceived fairness and equity—key components of inclusive leadership—affect performance management in MFIs. MFIs operate in often resource-constrained environments where staff may experience high workloads and limited rewards. When leaders demonstrate fairness in goal-setting, appraisal, and reward systems, employees perceive that their contributions are valued and reciprocated equitably. This fosters a sense of trust and organizational justice, which encourages improved performance, commitment, and reduced turnover. SET thus offers insights into how fair and inclusive leadership practices can be leveraged to enhance the effectiveness of performance management systems in MFIs. Overall, SET underscores the importance of reciprocal, fair, and trust-based relationships in fostering organizational performance. By highlighting how perceived equity influences employees' willingness to invest effort and align with institutional goals, the theory provides a solid conceptual basis for designing inclusive leadership interventions aimed at strengthening performance management within MFIs.

Empirical Review

Role Modelling and Performance Management

In a multi-industry sample from the UK, Bauwens et al. (2022) found that line managers who use role modeling to clarify expectations and reinforce desired behaviors significantly improved the effectiveness of Performance Management Systems (PMS), leading to higher innovation and compliance with strategic goals

A study by Wulandari and Putri (2020) sought to find out the influence of a role model leader on job performance through Organization Citizenship Behavior (OCB). The role model leader was assessed using authentic leadership style. Data was collected using interviews and questionnaires from 109 nurses working at RSJD Dr. Amino Gondohutomo. Data analysis methods use descriptive analysis and analysis using SmartPLS 3.0. The results showed that there was a significant negative relationship between authentic leadership towards employee performance. There is a positive and significant relationship between authentic leadership towards creativity and organizational citizenship behaviour as well as creativity and organizational citizenship behaviour towards employee performance. This study was conducted among nurses whereas the current study focused on employees working in the finance industry. Moreover, role modelling aspect was measured using indicators such as demonstration of organization values by the leaders, consistency between words and action, and mentorship and guidance.

Cherono, Towett, and Njeje (2016) examined the influence of mentorship practices on employees' performance in small manufacturing firms in Garissa County. Specifically, the study looked at how innovative mentorship, knowledge-transfer mentorship, and talent development mentorship affect employee performance in small manufacturing in Garissa County. A cross-sectional survey design was used and all the employees included as key respondents. Questionnaires were used and both descriptive and inferential statistics utilized in drawing conclusions on the relationships between study variables. The study established a significant relationship between leadership mentorship, innovative mentorship, knowledge transfer mentorship, talent development mentorship and the performance of the employees. This study was however conducted in the SME manufacturing enterprises in Garisa County whereas the current study focused on MFIs. Moreover, mentorship in the current study was examined as one of the aspects of role modeling among inclusive leaders. Hence, it sought to find out how this component affects performance management.

Perceived Equity and Fairness and Performance Management

Nutakor (2019) conducted a study that was rooted in organizational justice and motivational theory to assess the employee perception of fairness of performance appraisals and its effect on job satisfaction. Being a case study, data was collected using face-to-face interviews from 20 participants from a healthcare center in Baltimore-Washington Metropolitan area. Qualitative methods of data analysis were adopted. Research findings showed that employee perceptions of performance appraisals are critical and remain an invaluable component of the human resource function to benefit management executives and should include basic knowledge and employee input in the appraisal design and process. Implications for possible positive social change may include enhanced insights, knowledge, and understanding of the perceptions of performance appraisals that may enhance management decisions through fair, just, and accurate employee appraisals that will positively translate to job satisfaction. Despite the fact that the study showed that perception of fairness on performance appraisal influenced job satisfaction, the study was limited in terms of contextual, conceptual, and geographical gaps. This is whereby it focused on job satisfaction in the healthcare center in Baltimore-Washington Metropolitan area. This study however focused on perceived equity and fairness and how it affected performance management in MFIs in Nairobi County, Kenya.

In Pakistan, a study by Arshad, Asif, and Baloch (2012) examined the impact of fairness in working conditions on organizational performance in Pakistan Telecommunication Company Limited (PTCL) Islamabad. Adopting a survey method, the study sampled 200 respondents from different offices in PTCL. Data was collected using structured questionnaires and therefore quantitative methods of data analysis were also applied. The findings showed that there exists a very strong relationship between fairness and organizational performance. If fairness in the system is increased it will lead to high organizational performance and vice versa. The contextual gap in this study is that it concentrated on organization performance whereas the current study examined how the fairness and equity concept affect how the performance of an organization is managed.

Drawing upon Equity Theory, a study by Uzochukwu, Shehu-Usman, Gambo, and Bakare (2024) examined the impact of performance appraisal fairness on employee productivity in the federal regulatory agencies in Nigeria. Specifically, the study focused on the National Agency for Food and Drug Administration and Control (NAFDAC). A descriptive survey research design was adopted, with primary data collected from staff of NAFDAC using a five-point Likert scale model questionnaire. Correlation and regression techniques were used to analyze the data which was collected through non probability quota sampling. The result revealed that interactional, procedural and distributive fairness in performance appraisal were statistically significant and positively influenced employees' productivity in NAFDAC. The contextual gap in this study is that it looked at employee productivity as the end goal. Moreover, fairness was examined in the context of performance appraisal. This study however looked at equity and fairness from different contexts and how they may affect performance management in the financial industry focusing on MFIs.

In Kenya, Njuguna and Kisilu (2023) sought to establish the influence of procedural fairness on implementation of performance appraisal practices in public secondary schools in Trans Nzoia County. The study was guided by 'goalsetting and Vrooms expectancy theories respectively. The study used concurrent triangulation design. The target population was 2340 respondents comprising of 242 principals and 2098 teachers from 242 public secondary schools. The sample size was 342 comprising of 35 Principals and 307 teachers' respondents. Stratified, simple random and purposive sampling was used to select respondents. This sample of was drawn from 243 public secondary schools in Trans Nzoia County. Questionnaire were used to provide information and opinions from teachers and interviews from the principals. There was a significant influence of procedural fairness on implementation of performance appraisal practices (r=0.543, p=0.00). The procedural justice had significant influence on the implementation of performance appraisal practices. The study concludes that there was significant influence of procedural justice, on implementation of performance appraisal practices. Despite its relevance, the contextual and conceptual gaps of this study is that it was carried out in learning institutions and focused on performance appraisal as the dependent variable. The current study however was conducted in microfinance institutions and the dependent variable was performance management as a whole.

RESEARCH METHODOLOGY

The study adopted a descriptive research design to examine the influence of inclusive leadership on performance management among microfinance institutions (MFIs) in Nairobi City County, Kenya. Descriptive research is appropriate where the objective is to systematically describe existing phenomena and establish relationships among variables without manipulating the study environment (Polit & Beck, 2004; Shuttleworth, 2008). This design enabled the researcher to collect standardized data from respondents and generate empirical evidence on how inclusive leadership practices relate to performance management within the microfinance sector.

The target population comprised employees working in 14 licensed microfinance institutions operating in Nairobi City County, with the institutions serving as the unit of analysis and employees as the unit of observation. Nairobi City County was selected because it hosts the largest concentration of licensed MFIs and represents Kenya's principal commercial and financial centre, providing a diverse workforce and a competitive business environment suitable for examining leadership and organizational performance issues (Central Bank of Kenya [CBK], 2023; Association of Microfinance Institutions of Kenya [AMFI-K], 2023). The sampling frame consisted of the list of licensed MFIs obtained from AMFI-K together with employee lists provided by the respective institutions.

A census approach was adopted in selecting all the licensed MFIs, while simple random sampling was used to select individual employees from the participating institutions. The sample size was determined using Godden's (2004) formula for an unknown population, resulting in a final sample of 138 employees. This approach enhanced representativeness by giving each eligible employee an equal probability of selection while ensuring adequate statistical power for the analysis (Godden, 2004; Salant & Dillman, 2010).

Primary data were collected using a structured questionnaire comprising closed-ended questions measured predominantly on a five-point Likert scale. The questionnaire was organized according to the study objectives, with the first section capturing respondents' demographic information and the remaining sections measuring the study constructs. Data collection was undertaken after obtaining the necessary approvals from the university, the National Commission for Science, Technology and Innovation (NACOSTI), and the participating MFIs. Questionnaires were administered electronically through Google Forms over a two-week period to enhance accessibility, improve response rates, and facilitate efficient data collection (Gill et al., 2008).

To ensure the quality of the research instrument, a pilot study involving 14 respondents (10% of the study sample) was conducted among employees of two microfinance institutions in Kiambu County, consistent with recommendations that pilot samples constitute at least 10% of the main study sample (Mugenda & Mugenda, 2010). Instrument validity was established through face and content validity, whereby the questionnaire was reviewed by the research supervisor to ascertain its adequacy in addressing the study objectives (Kothari, 2014). Reliability was assessed using Cronbach's alpha coefficient, with values between 0.70 and 0.90 considered acceptable for demonstrating internal consistency of the measurement scales (George & Mallery, 2003; Mugenda, 2013). These procedures enhanced the credibility and dependability of the data collected for subsequent statistical analysis.

RESULTS AND DISCUSSION OF FINDINGS

Before commencement of data collection, this study intended to collect data from a sample size of 138 employees currently working at the MFIs. Therefore, 138 structured questionnaires were distributed to the respondents. However, out of the distribute questionnaires, only 119 instruments were found to be fully filled. This translated to a response rate of 86.2%. This response rate was considered to be adequate and representative for the analysis.

Descriptive Analysis of Variables

This section presents the descriptive analysis of the study variables with the aim of summarizing the basic features of the dataset and providing an empirical foundation for subsequent inferential analysis. Descriptive statistics offer a clear overview of the respondents' characteristics and the distributional properties of the key constructs under investigation. Measures such as means, standard deviations, and percentages were used to illustrate central tendencies, variability, and general response patterns across the study variables. By examining these descriptive indicators, the study established the extent to which respondents agreed with the statements representing each construct and identified underlying trends that influenced later statistical relationships.

Role Modeling

Role modeling was also assessed in this study and how it affected performance management of MFIs in Nairobi County. For the purposes of answering this objective, several questions were asked and respondents indicated their extent of agreement or disagreement. A 5-point Likert scale was adopted with the following key; 1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (UD), 4-Agree (A), 5-Strongly Agree, μ-Mean score, σ-Standard Deviation.

Table 1: Descriptive Results for Role Modeling

	Statement	SD	D	UD	A	SA	μ	σ
a.	Our leaders actively mentor and coach team members	-	-	27.7	39.5	32.8	4.50	0.779
b.	I look at my leader as a role model for growth and learning	-	10.9	16.8	43.7	28.6	3.90	0.942
c.	Our leader consistently upholds ethical standards in decision-making and actions.	-	-	33.6	54.6	11.8	3.78	0.640
d.	Our leaders demonstrate punctuality and reliability in fulfilling their responsibilities.	5.9	5.0	10.9	50.5	27.7	3.89	1.056
e.	The leader treats all individuals with fairness, dignity, and respect regardless of their position or background.	5.9	-	33.6	48.7	11.8	3.61	0.913
f.	The leader listens attentively and values the contributions of others during discussions.	-	5.9	23.6	52.9	17.6	3.82	0.788
	Average Score						**3.92**	**0.853**

Source: Field Data (2025)

The findings show that role modeling within MFIs is generally strong, as reflected in the overall mean of 3.92 and standard deviation of 0.853. This indicates that most employees perceive their leaders as displaying desirable behaviors that support professional growth, ethical conduct, and respectful engagement. The findings in Table 1 show very strong agreement that leaders in MFIs actively mentor and coach their team members, with 39.5% agreeing and 32.8% strongly agreeing, while 27.7% were undecided and none disagreed. The high mean score of 4.50 and relatively low variability (σ = 0.779) indicate that most employees consistently experience mentorship from their leaders. This suggests that leaders play a significant developmental role, supporting skill growth and professional competence. Recent studies confirm that mentorship is a critical leadership function in MFIs, enhancing employee confidence, performance, and retention (Kinyua & Wanyoike, 2023). Similarly, Mukati et al. (2022) found that coaching improves employee adaptability in dynamic financial environments, reinforcing the importance of this leadership behavior.

Regarding whether leaders serve as role models for growth and learning, 43.7% agreed and 28.6% strongly agreed, while 16.8% were undecided and 10.9% disagreed. With a mean of 3.90, the results suggest generally positive perceptions, although the slightly higher standard deviation (σ = 0.942) indicates noticeable variation in views. This means that while many employees look up to their leaders, a minority may not consistently view leadership behavior as exemplary. Empirical research supports this pattern, showing that when leaders model a commitment to learning, they inspire similar behaviors in employees, promoting innovation and continuous improvement (Odhiambo & Gachunga, 2021). The findings thus reflect the presence of transformational leadership qualities within many MFIs.

The perception of leaders upholding ethical standards is largely positive, with 54.6% agreeing and 11.8% strongly agreeing, while 33.6% remained undecided and none disagreed. The mean score of 3.78 indicates agreement, and the low dispersion (σ = 0.640) reflects relatively consistent opinions. The high level of neutrality, however, suggests that ethical behavior may not always be visible or communicated clearly to all staff. Ethical leadership is particularly crucial in MFIs due to their dual social–financial mandate, and studies show that ethical behavior from leaders strengthens trust, transparency, and sustainability within such institutions (Mwanzia & Juma, 2023). The findings align with literature but also point to opportunities for leaders to make ethical decision-making more explicit.

Employee perceptions of leader punctuality and reliability show broad agreement, with 50.5% agreeing and 27.7% strongly agreeing, while 10.9% were undecided, 5% disagreed, and 5.9% strongly disagreed. The mean of 3.89 suggests general approval, but the relatively high standard deviation (σ = 1.056) indicates substantial variability in experiences across departments. This inconsistency implies that some leaders operate with strong accountability, while others fall short. Recent research by Mutuku and Karanja (2022) emphasizes that reliable leadership fosters psychological safety and improves team coordination in MFIs. Therefore, while reliability is present, it is not uniformly demonstrated across all leadership levels.

The findings on fairness and respectful treatment show that 48.7% agreed and 11.8% strongly agreed, while 33.6% remained undecided, 5.9% strongly disagreed, and none disagreed. The mean of 3.61 indicates moderate agreement, though the standard deviation (σ = 0.913) points to varied perceptions across employees. This mixed view suggests that although many leaders practice fairness and respect, some staff may not consistently experience equitable treatment. Empirical evidence highlights that fairness and respect are foundational to ethical leadership and significantly influence employee morale, trust, and commitment in MFIs (Mwanzia & Juma, 2023). The results imply partial success but also room for strengthening consistent ethical conduct across leadership ranks.

Employees largely perceive leaders as attentive listeners, with 52.9% agreeing and 17.6% strongly agreeing, while 23.6% were undecided and 5.9% disagreed. The mean score of 3.82 shows positive perceptions, and the moderate standard deviation (σ = 0.788) indicates relatively stable views across respondents. These findings suggest that leaders generally create inclusive spaces where employees feel heard and valued. This aligns with recent findings showing that leader attentiveness increases employee engagement, strengthens teamwork, and enhances information flow within MFIs (Mutuku & Karanja, 2022). Attentive listening is a hallmark of supportive leadership and contributes greatly to a cohesive work culture.

Perceived Equity and Fairness

This study sought to establish the effect of perceived equity and fairness on performance management of MFIs in Nairobi County, Kenya. Respondents were asked several questions and asked to indicate their extent of agreement. A 5-point Likert scale was also adopted with the following key; 1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (UD), 4-Agree (A), 5-Strongly Agree, μ-Mean score, σ-Standard Deviation.

Table 2: Descriptive Results for Perceived Equity and Fairness

	Statement	SD	D	UD	A	SA	μ	σ
a.	Our leaders adopt transparent and clear criteria in performance appraisal.	-	5.9	17.6	65.6	10.9	3.82	0.701
b.	Our leaders have encouraged objective and merit-based performance evaluations.	-	5.9	27.7	55.5	10.9	3.71	0.738
c.	There is a fair representation of diverse groups in leadership and decision-making roles in our institution.	5.9	-	32.7	55.5	5.9	3.55	0.851
d.	Our leaders promote equal access to promotions, training, and development regardless of gender, age, or background.	-	5.9	21.0	55.5	17.6	3.85	0.777
e.	Leadership clearly communicates the rationale behind key decisions.	5.9	5.9	22.7	53.7	11.8	3.60	0.977
f.	Incentives are fairly distributed across roles and departments.	5.9	11.8	32.8	32.8	16.7	3.43	1.086
	Average Score						**3.66**	**0.855**

Source: Field Data (2025)

The results indicate that employees generally perceive the performance appraisal process in MFIs as transparent and based on clear criteria. A total of 65.6% agreed and 10.9% strongly agreed, while 17.6% were undecided and only 5.9% disagreed. The mean of 3.82 reflects strong agreement, and the low standard deviation (σ = 0.701) suggests consistent perceptions across employees. This indicates that leaders in MFIs communicate appraisal standards reasonably well and that evaluation processes are understood by most employees. Current empirical findings show that transparent appraisal criteria reduce perceptions of bias and strengthen trust in leadership (Ngeno & Gachunga, 2023). Transparency is also positively associated with higher employee satisfaction, motivation, and reduced turnover intentions (Omondi & Bwisa, 2022). The findings therefore point to a performance management environment where fairness is actively supported.

Employees also expressed general agreement that performance evaluations are objective and merit-based, with 55.5% agreeing and 10.9% strongly agreeing, although 27.7% were undecided and 5.9% disagreed. The mean of 3.71 suggests a positive perception of fairness in evaluations, though the presence of a notable undecided group reflects some uncertainty regarding the consistency of these practices. The standard deviation (σ = 0.738) indicates moderate variability, meaning that experiences may differ across departments. Recent studies show that merit-based evaluations enhance employee morale, increase perceived organizational justice, and improve individual performance (Kariuki & Kimani, 2023). However, inconsistencies in implementation may weaken employees' confidence in fairness—a pattern reflected in the undecided responses.

Perceptions of diversity and fair representation in leadership are moderately positive but mixed. 55.5% agreed and 5.9% strongly agreed, while 32.7% were undecided, 5.9% strongly disagreed, and none disagreed. The mean of 3.55 indicates moderate support, yet the relatively high standard deviation (σ = 0.851) suggests substantial variation in perceptions. This reflects uneven representation experiences across different MFIs or departments. Empirical research shows that diverse leadership enhances innovation, institutional legitimacy, and employee trust—particularly important in MFIs serving diverse communities (Abuya & Wanjiru, 2023). The high number of undecided respondents, however, may indicate limited visibility of diversity initiatives, suggesting the need for more intentional and clearly communicated diversity policies.

The findings reveal strong perceptions of equity in access to career advancement opportunities. 55.5% agreed and 17.6% strongly agreed, whereas 21.0% were undecided and 5.9% disagreed. The mean of 3.85 reflects strong agreement, and the moderate standard deviation (σ = 0.777) shows generally consistent experiences. These results suggest that leaders in MFIs promote equitable access to promotions and training regardless of demographic factors. Contemporary studies emphasize that equitable professional development opportunities strengthen employee commitment and reduce workplace discrimination (Mwangi & Kirima, 2022). Such fairness practices also help MFIs attract and retain talent in competitive environments. The undecided responses may, however, indicate that not all employees have directly benefited from such opportunities.

Leaders' communication of the rationale behind key decisions received mixed but generally positive feedback. 53.7% agreed and 11.8% strongly agreed, while 22.7% were undecided, 5.9% disagreed, and 5.9% strongly disagreed. The mean of 3.60 suggests moderate agreement, but the high standard deviation (σ = 0.977) indicates significant divergence in experiences. This implies that while some leaders communicate decisions effectively, others may not do so consistently. In supporting this finding, Mutiso and Wambua (2023) affirm that clear communication enhances procedural justice, reduces organizational conflict, and improves employee trust. The disparities revealed here highlight a need for standardized communication protocols to ensure equitable access to information across MFIs.

Perceptions of fairness in distributing incentives were the least positive among the equity indicators. 32.8% agreed, 16.7% strongly agreed, while 32.8% were undecided and 17.7% disagreed or strongly disagreed. The mean of 3.43 indicates moderate agreement, but the high standard deviation (σ = 1.086) shows wide variability in perceptions. This suggests that while some employees feel incentives are fairly allocated, others experience disparities, possibly due to inconsistency in reward structures. According to Otieno and Ochieng (2023), inequitable incentive distribution undermines motivation, contributes to perceptions of favoritism, and increases employee dissatisfaction. The wide variation implies that MFIs may need clearer reward policies and more transparent mechanisms for allocating financial and non-financial incentives.

Performance Management

Performance management which formed the dependent variable was also assessed. The respondents were asked several questions and they indicated their extent of agreement or disagreement. A 5-point Likert scale was also adopted as follows; 1-Strongly Disagree (SD), 2-Disagree (D), 3-Undecided (UD), 4-Agree (A), 5-Strongly Agree, µ-Mean score, σ-Standard Deviation.

Table 3: Descriptive Results for Performance Management

	Statement	SD	D	UD	A	SA	µ	σ
a.	I am regularly held accountable for meeting my performance targets.	-	-	10.9	39.5	49.6	4.39	0.678
b.	Our organization has clearly defined performance expectations for all employees.	-	5.9	5.9	48.7	39.5	4.22	0.804
c.	The institution has increased its innovativeness in handling various problems over the past five years.	-	10.9	10.9	44.6	33.6	4.01	0.943
d.	Our team is encouraged to propose new ideas to improve service delivery.	-	-	11.8	43.7	44.5	4.33	0.678
e.	The operation efficiency of the institution has increased over the past 5 years.	-	5.9	16.8	38.6	38.7	4.10	0.887
f.	There has been an increased accountability among the employees in the institution over the past 5 years.	-	-	16.8	49.6	33.6	4.17	0.693
	Average Score						**4.20**	**0.781**

Source: Field Data (2025)

The findings in Table 3 indicate that employees perceive a high level of accountability in meeting performance targets. A combined 89.1% of respondents agreed or strongly agreed, while only 10.9% were undecided, and no participants disagreed. The mean score of 4.39 and low standard deviation (0.678) suggest a strong and consistent perception that employees are regularly held accountable. Muriuki and Karanja (2022) emphasize that accountability structures are essential for enhancing performance in MFIs, as they drive responsibility, motivation, and goal alignment among staff. The results indicate that clear accountability mechanisms are central to the performance management culture in these institutions.

Respondents agreed that their organizations have well-defined performance expectations, with 48.7% agreeing and 39.5% strongly agreeing, while 11.8% were either undecided or disagreed.

The mean of 4.22 and standard deviation of 0.804 show strong consensus on clarity of performance expectations. Otieno and Mwangi (2021) show that clear expectations reduce ambiguity and enhance employee focus, leading to improved efficiency and service delivery in financial institutions. These findings suggest that MFIs have successfully institutionalized performance standards, ensuring that employees understand what is required for effective contribution.

Employees perceive that their institutions have become more innovative in problem solving over the past five years, with 44.6% agreeing and 33.6% strongly agreeing, while 21.8% were undecided or disagreed. The mean of 4.01 reflects a positive but moderately variable perception ($\sigma = 0.943$). Innovation in problem-solving is critical for MFIs to remain competitive and responsive to client needs. In supporting this finding, a study by Kariuki and Ndiritu (2022) indicated that institutions promoting innovative practices are better equipped to handle operational challenges and adapt to dynamic market environments. The findings suggest that while innovation is evident, there may be room to enhance consistency and institutionalize creativity across all teams.

A substantial majority of employees reported that their teams are encouraged to propose ideas to improve service delivery, with 43.7% agreeing and 44.5% strongly agreeing. No respondents strongly disagreed, and 11.8% were undecided. The high mean (4.33) and low standard deviation (0.678) indicate that the practice is widely implemented and consistently perceived. Mwangi and Wanyoike (2021) underscore that employee-driven innovation is linked to better client outcomes and institutional adaptability, particularly in microfinance settings where frontline staff often identify service delivery gaps. These results highlight the participatory nature of performance management in fostering continuous improvement.

Respondents perceive that operational efficiency has improved, with 38.6% agreeing and 38.7% strongly agreeing, while 22.7% were undecided or disagreed. The mean score of 4.10 and moderate standard deviation (0.887) indicate positive perceptions with some variation. Operational efficiency is a key outcome of effective performance management, and studies show that MFIs that monitor processes and incentivize efficiency achieve better financial sustainability and client satisfaction (Omondi & Mutua, 2020). The findings suggest that performance management practices are contributing to measurable gains in institutional efficiency, though some inconsistencies remain.

Employees generally perceive that accountability among staff has improved over the past five years, with 49.6% agreeing and 33.6% strongly agreeing, while 16.8% were undecided. The mean of 4.17 and low standard deviation (0.693) indicate strong and consistent agreement. As highlighted by Muriuki and Karanja (2022), sustained accountability practices enhance employee discipline, goal achievement, and overall organizational performance. These findings suggest that MFIs have strengthened accountability mechanisms over time, reinforcing the effectiveness of their performance management systems.

The overall mean score of 4.20 and standard deviation of 0.781 indicate that performance management is robust in MFIs, characterized by accountability, clarity of expectations, operational efficiency, and encouragement of innovation. The findings reflect a well-structured performance management culture that promotes employee responsibility, participation, and continuous improvement. While most practices are consistently perceived across employees, minor variations suggest areas where MFIs can further standardize processes to ensure all staff experience uniform performance management practices.

Correlation Analysis

The correlation analysis was conducted to determine the strength and direction of the relationship between inclusive leadership and performance management of MFIs in Nairobi County. This analysis provides insights into how changes in one variable are associated with changes in another. Through the findings, the study identified whether the relationships are weak, moderate, or strong, and whether they are positive or negative.

Table 4: Correlation Results

		Role Modelling	Perceived Equity	Performance Management
Role Modelling	Pearson Correlation	1		
	Sig. (2-tailed)			
Perceived Equity	Pearson Correlation	.826**	1	
	Sig. (2-tailed)	.000		
Performance Management	Pearson Correlation	.689**	.707**	1
	Sig. (2-tailed)	.000	.000	
	N	119	119	119

Role modelling exhibits a strong positive and significant correlation with performance management ($r = 0.689$, $p < 0.05$), indicating that employees who perceive their leaders as ethical, fair, and exemplary in behavior are more likely to experience effective performance management practices. This suggests that leaders who actively mentor, coach, and demonstrate integrity positively influence employees' performance outcomes by establishing clear expectations, reinforcing accountability, and motivating engagement. In supporting this observation, a study by Kinyua and Wanyoike (2023) showed that transformational and ethical leadership behaviors are strongly associated with improved employee performance and institutional effectiveness.

Perceived equity also shows a strong positive relationship with performance management ($r = 0.707$, $p < 0.05$), indicating that fairness in performance appraisals, promotions, access to training, and reward distribution significantly enhances employees' engagement and compliance with performance standards. This finding emphasizes the critical role of organizational justice in shaping employee behavior, as equitable practices increase motivation, reduce workplace conflict, and foster trust in leadership. Studies in MFIs have highlighted that when employees perceive fairness in policies and practices, they are more committed to meeting performance expectations and contributing to organizational goals (Mwanzia & Juma, 2023).

Multiple Linear Regression Analysis

Multiple linear regression analysis was conducted to examine the combined effect of inclusive leadership dimensions—role modelling, perceived equity,—on performance management in microfinance institutions (MFIs) in Nairobi County. This statistical technique allows for the assessment of how well these independent variables collectively predict variations in the dependent variable, performance management, while controlling for the interrelationships among the predictors. By estimating the strength and direction of each predictor's contribution, multiple regression provides insights into the relative influence of different aspects of inclusive leadership on employee performance outcomes. The analysis also enables the evaluation of the overall explanatory power of the model, indicating the extent to which inclusive leadership practices account for observed variations in performance management within the sampled MFIs. The MLR results are presented using the model summary, ANOVA, and coefficient tables respectively.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.743[a]	.552	.537	2.38895

a. Predictors: (Constant), Perceived Equity and Fairness, Role Modelling,

The model summary indicates a strong relationship between inclusive leadership and performance management in MFIs in Nairobi County, with an R value of 0.743, suggesting a substantial correlation between the combined inclusive leadership dimensions and performance management outcomes. The R Square of 0.552 shows that approximately 55.2% of the variance in performance management can be explained by the predictors— Perceived Equity and Fairness, role modelling,—demonstrating that inclusive leadership practices account for a majority of performance management differences among employees. However, the residue of 44.8% could be addressed by other factors or the error term. On the other hand, the relatively low standard error of the estimate (2.389) indicates that the model predicts performance management with reasonable accuracy, reinforcing the conclusion that inclusive leadership is a key determinant of effective performance management in MFIs.

Table 6: ANOVA Results for the Relationship between Inclusive Leadership and Performance Management

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	803.141	4	200.785	35.182	.000[b]
1	Residual	650.607	114	5.707		
	Total	1453.748	118			

a. Dependent Variable: Performance Management
b. Predictors: (Constant), Perceived Equity and Fairness, Role Modelling,

The ANOVA results for the relationship between inclusive leadership and performance management in MFIs in Nairobi County indicate that the regression model is statistically significant, with an F-value of 35.182 and a p-value of .000, which is less than the conventional significance level of 0.05. This suggests that the combined predictors— Perceived Equity and Fairness, role modelling—collectively have a significant effect on performance management. Therefore, this study rejects the null hypothesis and accepts the alternative concluding that there is a statistically significant relationship between inclusive leadership and performance management in microfinance institutions in Nairobi County, Kenya. Overall, these findings indicate that inclusive leadership practices play a critical role in shaping employee performance outcomes in MFIs, highlighting the importance of fostering transparency, collaboration, ethical leadership, and fairness to enhance organizational effectiveness.

In supporting this observations authors such as Mwangi and Wanyoike (2021) highlight that team-oriented leadership and role modelling enhance innovation, operational efficiency, and adherence to organizational goals, reinforcing the importance of inclusive practices in achieving performance targets. Furthermore, Kinyua and Wanyoike (2023) argue that perceived equity and transparent reward systems strengthen trust and motivation among employees, thereby enhancing overall institutional effectiveness.

Table 7: Coefficient Results for the Relationship between Inclusive Leadership and Performance Management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	11.160	1.456		7.667	.000
1	Role Modelling	.325	.096	.387	3.388	.001
	Perceived Equity	.327	.162	.351	2.012	.047

a. Dependent Variable: Performance Management

Role modelling emerged as the strongest predictor of performance management in the model, with an unstandardized coefficient of 0.325 and a highly significant p-value of 0.001. This implies that a one-unit increase in role modelling is associated with a 0.325-unit increase in performance management, holding other factors constant. Leaders who actively mentor, uphold ethical standards, and demonstrate exemplary behavior inspire employees to meet performance expectations and engage in continuous improvement. Empirical studies such as that by Kinyua and Wanyoike (2023) show that ethical and transformational leadership directly enhances employee motivation, compliance with performance targets, and institutional effectiveness.

Perceived equity also has a positive and significant effect on performance management, with a beta coefficient of 0.327 and a p-value of 0.047. This implies that while holding all other factors constant, a unit increase in perceived equity and fairness leads to an increase in performance management by 0.327 units. Moreover, the findings suggest that fairness in promotions, rewards, training opportunities, and decision-making processes contributes substantially to employee engagement and accountability. When employees perceive that organizational practices are just and transparent, they are more likely to adhere to performance standards and strive for excellence. This finding supports research emphasizing that organizational justice and equitable treatment are key drivers of performance outcomes in microfinance and other service-oriented institutions (Mutuku & Karanja, 2022).

From the overall multiple linear regression analysis, the final model was presented as follows;

$$PM=11.160 + 0.327 \text{ Perceived Equity} +0.325 \text{ Role Modelling}$$

Conclusions

The results further confirm role modelling as one of the strongest predictors of performance management among the four dimensions examined. Employees rated their leaders favorably in demonstrating ethical behaviour, professionalism, and consistency, which was reinforced by the highly significant regression coefficient. This suggests that leaders who embody the values and standards they expect from others create clarity and motivation for employees to perform. Such leaders inspire higher levels of discipline, accountability, and adherence to organizational goals, ultimately improving performance management practices across the institution.

Another important conclusion relates to perceived equity and fairness, which also emerged as a significant determinant of performance management. Moreover, employees moderately feel fairly treated in matters such as workload distribution, recognition, and access to opportunities. In addition, fairness perceptions significantly influence performance outcomes, suggesting that when employees believe that organizational processes are just and impartial, they are more committed, engaged, and willing to participate effectively in performance management systems.

Recommendations

Based on the study findings, microfinance institutions (MFIs) should strengthen role modelling by investing in leadership development programmes that equip managers with skills in ethical leadership, professionalism, integrity, accountability, and consistent decision-making. Leaders should consistently demonstrate behaviours that reflect organizational values, as employees are more likely to emulate leaders who exhibit ethical conduct and high professional standards. In addition, MFIs should establish formal mentorship and coaching programmes to reinforce positive leadership behaviours and create a culture that supports effective performance management.

MFIs should also strengthen perceived equity and fairness by developing and consistently implementing transparent policies governing performance appraisal, promotions, rewards, workload allocation, and employee development opportunities. Performance appraisal systems should be standardized, objective, and based on clearly communicated criteria to minimize bias and enhance employees' perceptions of fairness. Regular reviews of organizational policies and employee feedback mechanisms should be undertaken to identify and address areas where inequitable practices may exist.

Regulatory agencies and policymakers should develop and promote governance guidelines that encourage ethical leadership and fairness within microfinance institutions. Such guidelines should emphasize transparent performance management systems, equitable human resource practices, and accountability mechanisms that enhance employee confidence in organizational processes. Periodic leadership and organizational governance assessments should also be encouraged to ensure compliance with best practices in inclusive leadership and performance management.

MFIs should incorporate inclusive leadership competencies into their leadership development and management training programmes. Training should focus on ethical leadership, role modelling, organizational justice, fairness in decision-making, conflict management, and effective performance management practices. Institutions of higher learning and professional bodies offering leadership and human resource management programmes should similarly integrate these competencies into their curricula to prepare future leaders for managing diverse workplaces effectively.

Finally, organizational leaders should cultivate workplace environments characterized by integrity, fairness, transparency, and accountability. Leaders should consistently communicate performance expectations, apply organizational policies impartially, recognize employee contributions objectively, and ensure equitable access to career development opportunities. These practices will strengthen employees' trust in leadership, improve acceptance of performance management systems, and ultimately enhance organizational performance within microfinance institutions.

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