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The Moderating Influence of External Business Environment on The Relationship Between Leadership Style and Organizational Performance Among Housing Mortgage Finance Companies in Kenya

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Abstract
The effectiveness of leadership practices is widely recognised as contingent upon the environmental contexts within which organisations operate. This study examined the influence of external business environment on the relationship between leadership style and organisational performance among housing mortgage companies in Kenya. Guided by the Contingency Theory, the study adopted a positivist philosophical stance and an explanatory research design. A census survey was conducted among 195 senior managers drawn from all 39 housing mortgage finance companies licensed by the Central Bank of Kenya. Data were collected using structured questionnaires, of which 157 were returned, yielding a response rate of 80.5% and deemed suitable for analysis. Content validity was established through expert review, while reliability was assessed using Cronbach's alpha coefficients ranging from 0.710 to 0.819. Data were analysed using descriptive statistics including means and standard deviations and hierarchical multiple regression analysis. The findings indicated that the interaction between leadership style and the external business environment significantly predicted organisational performance (R^2 = .502, $F(1, 155) = 156.18$, $p < .001$). The moderation model explained 50.2% of the variance in organisational performance (R^2 = .502). The findings support the proposition that environmental conditions influence the effectiveness of leadership practices. The study concludes that the external business environment significantly moderates the relationship between leadership style and organisational performance in Kenya's housing mortgage finance sector. The study recommends the adoption of context-sensitive leadership approaches that align organisational practices with prevailing environmental conditions.

Introduction

Organisations increasingly operate in volatile, uncertain, complex, and dynamic environments that significantly influence strategic decision-making and organisational outcomes. Within such environments, leadership has emerged as a critical determinant of organisational effectiveness because leaders shape strategic direction, organisational culture, employee motivation, resource

allocation, and organisational adaptability (Yukl, 2008). Consequently, leadership has attracted considerable attention in management research as scholars seek to understand its contribution to organisational performance.

Although substantial empirical evidence suggests that leadership styles positively influence organisational outcomes (Deng et al., 2023), emerging theoretical and empirical literature indicates that leadership effectiveness cannot be adequately understood in isolation from organisational context. Organisations operate as open systems that continuously interact with external environmental forces such as technological change, market competition, regulatory requirements, economic uncertainty, and resource availability. These environmental conditions may enhance, constrain, or otherwise alter the effectiveness of particular leadership approaches.

The present study was motivated by the need to understand how the external business environment influences the relationship between leadership style and organisational performance within Kenya's housing mortgage finance sector. Existing studies provide evidence that environmental conditions shape leadership effectiveness and organisational outcomes. For example, Omondi et al. (2022) established that the external environment significantly influenced the relationship between strategic leadership, strategy implementation, and organisational performance in Kenyan agricultural parastatals. Similarly, Wanyama & Nyaga (2019) demonstrated the importance of strategic leadership in enabling commercial banks to adapt to changing environmental conditions. In Tanzania, Mwakajila &Nyello (2021) found that transformational leadership and a combination of transformational and transactional leadership positively influenced firm performance, while organisational characteristics moderated these relationships.

Globally, Rockstuhl et al. (2023) analysed 599 samples across 53 cultures and established that both transformational and transactional leadership positively influence follower performance, although the effectiveness of each leadership style varies depending on contextual conditions. These findings support the argument that leadership effectiveness is contingent upon environmental circumstances. Nevertheless, the majority of these studies were conducted outside the housing mortgage finance sector and focused on different organisational contexts. Their findings therefore provide limited insight into how environmental conditions influence leadership effectiveness within Kenya's mortgage finance industry.

The housing mortgage finance sector provides an important context for studying leadership effectiveness because it operates within a highly regulated and competitive environment characterised by fluctuating interest rates, credit risk exposure, changing regulatory requirements, and limited access to long-term financing. Kenya's mortgage market continues to experience challenges related to affordability, high lending rates, inadequate long-term financing, and limited mortgage access despite increased policy attention (KNBS, 2024). Consequently, understanding how leadership styles interact with environmental conditions to influence organisational performance is both theoretically and practically important.

Further, existing studies on Kenya's mortgage sector have largely focused on mortgage portfolio performance, housing affordability, financial inclusion, and strategic management issues (Nyang'iye et al., 2022). Relatively little attention has been directed towards examining how external business environmental conditions influence leadership effectiveness and organisational performance. This study addresses this gap by investigating the moderating influence of the external business environment on the relationship between transformational and transactional leadership styles and organisational performance among housing mortgage finance companies in Kenya.

Theoretical literature review

The study was anchored on Contingency Theory as developed by Fiedler (1967). The theory posits that organisational effectiveness is contingent upon the fit between leadership behaviour and prevailing situational conditions. Consequently, there is no universally effective leadership style. Rather, leadership effectiveness depends upon the context within which leadership occurs.

Contingency theory argues that organisations achieve superior performance when leadership approaches are aligned with environmental demands and organisational circumstances (Vaszkun & Koczkas, 2024). Leadership effectiveness is therefore not merely a function of leader behaviour but an outcome of the interaction between leadership style and situational characteristics (Johns, 2024). Environmental conditions such as uncertainty, complexity, resource munificence, and dynamism may significantly influence the effectiveness of different leadership approaches (Dess & Beard, 1984; de Hoogh et al., 2004).

The theory provides an appropriate foundation for the present study because it explains how environmental conditions may strengthen, weaken, or modify the relationship between leadership style and organisational performance. In particular, it supports the proposition that the external business environment functions as a moderating variable influencing leadership effectiveness within housing mortgage finance organisations.

Previous studies suggest that transformational leadership tends to be more effective in dynamic environments that require innovation, flexibility, and adaptability (Gupta, 2025). Conversely, transactional leadership appears more effective in environments characterised by operational efficiency requirements, clearly defined performance expectations, and accountability demands (Agyabeng, 2025). Since housing mortgage finance institutions operate within highly regulated and competitive environments, understanding how environmental factors influence the effectiveness of these leadership styles is particularly important.

Drawing on the seminal work of Dess and Beard (1984), the present study conceptualised the external business environment through three dimensions: environmental dynamism, environmental complexity, and environmental munificence. These dimensions have received extensive empirical support in organisational and strategic management research (Arun & Ozmutlu, 2022; Chung et al., 2021; Jung et al., 2020). The present study therefore examines whether these environmental conditions moderate the influence of leadership style on organisational performance.

Empirical review

Empirical studies consistently demonstrate positive relationships between leadership styles and organisational performance. However, increasing evidence suggests that these relationships are context-dependent.

Rockstuhl et al. (2023) conducted a meta-analysis involving 599 samples and over 162,000 participants across 53 cultures. The study found that both transformational and transactional leadership positively influenced employee performance. However, the strength of these relationships varied according to cultural and organisational contexts. The study concluded that leadership effectiveness depends largely on contextual conditions. While highly informative, the study focused on national culture rather than external business environment and was not specific to the mortgage finance sector.

Atoko (2023) established that transformational leadership positively influences employee motivation, innovation, and organisational performance in developing countries. However, the study was purely literature-based and did not investigate environmental conditions as a moderating variable. Furthermore, it focused exclusively on transformational leadership, limiting understanding of transactional leadership influences.

Mwakajila and Nyello (2021) examined leadership styles and financial performance among SMEs in Tanzania. The findings indicated that transformational leadership and a combination of transformational and transactional leadership positively influenced organisational performance, while firm characteristics moderated these relationships. However, the study focused on internal firm characteristics rather than external environmental conditions.

Within Kenya, Kiplagat et al. (2024) examined the moderating effect of the external environment on the relationship between transformational leadership and organisational performance among state corporations. The findings revealed that external environmental conditions significantly moderated leadership effectiveness. However, the study was conducted within public-sector organisations and considered only transformational leadership. Consequently, its findings may not be generalisable to mortgage finance institutions operating within highly regulated financial markets.

Similarly, Mwangi et al. (2022) found that leadership styles significantly influence financial performance among commercial banks in Kenya. However, the study focused on financial innovation as a mediating mechanism and did not investigate external environmental moderation effects.

Collectively, these studies demonstrate the importance of leadership in enhancing organisational performance. However, they reveal important conceptual, contextual, and methodological gaps. Existing studies have rarely examined both transformational and transactional leadership styles simultaneously while incorporating the external business environment as a moderator. Additionally, very limited evidence exists from Kenya's housing mortgage finance sector. The present study sought to address these gaps.

Conceptual framework

Figure 1 below illustrates the conceptual framework guiding this study.

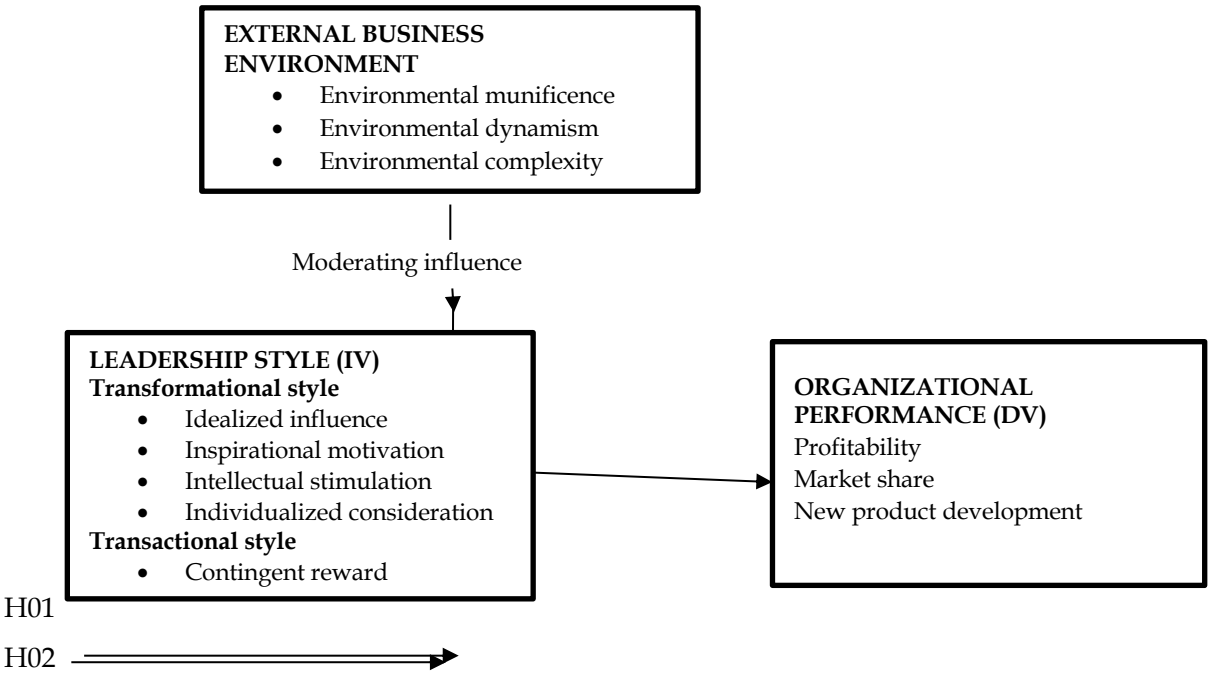


Figure 1: Study conceptual framework

Study hypotheses

H01: External business environment does not significantly moderate the relationship between transformational leadership and organisational performance among mortgage finance companies in Kenya.

H02: External business environment does not significantly moderate the relationship between transactional leadership and organisational performance among mortgage finance companies in Kenya.

Source: Adapted from Kiplagat et al. (2024) and Alsayah (2022) and modified by the researcher (2026)

The conceptual framework proposes that leadership style influences organisational performance both directly and indirectly through interaction with environmental conditions. Leadership style was operationalised using transformational leadership dimensions (idealised influence, inspirational motivation, intellectual stimulation, and individualised consideration) and transactional leadership dimensions (contingent reward). Organisational performance was measured using profitability, market share, and new product development indicators. The external business environment was conceptualised through environmental dynamism, complexity, and munificence.

Methodology

Research philosophy

This study was guided by the positivist philosophical orientation. Positivism assumes that social phenomena can be objectively measured and explained through empirical observation and statistical analysis (Saunders et al., 2019). This philosophical stance was considered appropriate because the study sought to test hypothesised relationships between leadership style, external business environment and organisational performance using quantitative data. Moreover, positivism supports the use of standardised research instruments and statistical techniques in establishing causal relationships among study variables.

Research design

The study adopted a cross-sectional survey research design. A cross-sectional research design comprises data collection from a defined population at a single point in time in order to investigate trends and relationships among variables. According to Saunders et al. (2019), this kind of research design is appropriate for studies seeking to test theoretical relationships and hypotheses using quantitative data obtained from a large population. The study deemed the design appropriate because the study sought to investigate the moderating influence of external business environment on the relationship between leadership style and organisational performance using data collected from respondents at one point in time. This design enabled the simultaneous collection of data on leadership styles, external business environment and organisational performance across all licensed housing mortgage finance companies in Kenya. The study also deemed cross-sectional design because of the need for consistency with the positivist paradigm anchoring the study, where such design supported the use of structured questionnaires and statistical procedures to objectively examine the hypothesised relationships among the study variables.

Target population

The study target population comprised 195 senior managers drawn from all the 39 mortgage finance companies licensed by the Central Bank of Kenya. The respondents consisted of senior managers responsible for strategic organisational functions of strategy, finance, human resource management, planning and research and development at the headquarter offices of the companies. This group of respondents were considered appropriate because they possess adequate

knowledge regarding leadership practices, organisational performance and environmental issues affecting their organisations.

Sampling procedure

Given the target population was relatively small and manageable, the study adopted a census approach. A census involves collecting data from every unit within the target population, in the process eliminating sampling error and enhancing the representativeness of study findings (Kothari, 2004). Consequently, all the 195 senior managers from the 39 licensed housing mortgage finance companies were included in the study.

Data collection instruments and procedure

Data were collected using a structured questionnaire, developed from established measures adopted from previous studies on organisational performance, leadership style and external business environment. Leadership style was measured using transformational and transactional leadership dimensions, while the external business environment was measured using environmental dynamism, munificence and complexity. Organisational performance was measured using profitability, new product development and market share. A five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to measure responses.

The researcher obtained the necessary approvals and authorisation prior to data collection. The researcher administered to senior managers within the housing mortgage finance companies. Data collection was undertaken at the companies headquarter offices in Nairobi, the capital city of Kenya, where strategic management functions are coordinated. The study distributed a total of 195 questionnaires, out of which 157 usable questionnaires were returned. This represented a response rate of 80.5%. According to established methodological benchmarks, this rate is considered adequate for statistical analysis and generalisation and significantly reduces the risk of non-response bias (Babbie, 2016).

Validity of the research instrument

Content validity was established through expert evaluation by faculty members at the School of Business and Economics at the Masinde Muliro University of Science and Technology. The questionnaires were assessed for clarity, relevance and adequacy of the items in relation to the study objectives and variables. The recommendations from the faculty members informed the refinements and therefore enhanced the instrument's ability to adequately capture the constructs under investigation.

Reliability of the research instrument

The reliability of the measurement scales was assessed using Cronbach's alpha coefficient. According to Nunnally (1978), Cronbach's alpha values of 0.70 and above are deemed acceptable for establishing internal consistency in social science research. Table 3.1 below indicates the results of reliability test results, with Cronbach's alpha values ranging from 0.710 for external business environment to 0.819 for transformational leadership. The values exceeded the recommended threshold, indicating satisfactory internal consistency and confirming the suitability of the instrument for data collection and analysis.

Data analysis

The data collected were coded, entered, cleaned and analysed using the Statistical Package for Social Sciences (SPSS). The study used descriptive statistics including means and standard deviations to summarise the characteristics of the study variables. Hierarchical multiple regression analysis was used for inferential analysis to test moderating influence of external business environment on relationship between leadership style and organisational performance. The moderation analysis was conducted in three stages, involving three models.

Analytical model

The hierarchical regression models tested in the study were as specified below:

Model 1

$OP = \beta 0 + \beta 1LS + \varepsilon$

Model 2

$OP = \beta_0 + \beta_1 LS + \beta_1 E + \varepsilon$

Model 3

$OP = \beta_0 + \beta_1 LS + \beta_2 E + \beta_3 (LS \times E) + \varepsilon$

Where

OP = Organisational performance

LS = Leadership style

E = External business environment

β_0 = Constant term

β_1, β_1, β_1 = Regression coefficients

ε = Error term

Hypothesis testing

The study tested the following null hypotheses:

H01: External business environment does not significantly moderate the relationship between transformational leadership and organisational performance among mortgage finance companies in Kenya.

H02: External business environment does not significantly moderate the relationship between transactional leadership and organisational performance among mortgage finance companies in Kenya.

The study tested the hypotheses at the 0.05 level of significance. The null hypothesis was rejected where the interaction term was statistically significant ($p < .05$), indicating the presence of a moderating effect.

Ethical Considerations

Ethical standards for research regarding guidelines for copyright, authorship, data sharing policies, patenting, as well as confidentiality rules in peer reviews help protect intellectual property rights and encourage collaboration. Ethical norms also build public support for research, particularly concerning research funding where integrity and quality are prerequisites for public trust.

To ensure compliance with the required ethical norms, this study began by seeking research permit from the National Commission for Science, Technology and Innovation (NACOSTI) to allow the conduct of the research. This was the first step before going to the field. NACOSTI undertook review of the study proposal to ensure compliance with ethical standards. The researcher also sought consent and appointment from human resource management departmental heads of all the organisations under study before the research began. This helped the researcher in obtaining informed consent from participants before they were involved in the study.

The researcher made participants fully to understand the nature of the research, purpose and benefits. Giving participants clear information helps them understand their involvement to foster transparency and trust. Maintaining participant confidentiality is very essential in research and to ensure this, the researcher took steps to protect personal information and ensure it is not disclosed without consent. Moreover, the names of the respondents did not appear anywhere on the questionnaire. Maintaining confidentiality encourages trust between researchers and participants. The researcher also took steps to avoid any form of misconduct, including fabrication, plagiarism

and falsification of data. Ensuring ethical standards in the collection, analysis of data is vital for upholding integrity of the research process. Finally, in the course of carrying out data collection, the researcher avoided asking private and other questions deemed irrelevant and embarrassing in the context of the study.

Results

The objective of this study was to examine the moderating influence of the external business environment on the relationship between leadership style and organisational performance among housing mortgage finance companies in Kenya. The results are presented in the tables that follow. Table 4.1 below provides a summary of descriptive statistics and reliability coefficients for the variables under study.

Descriptive statistics and reliability results

Table 1 below presents the descriptive statistics and reliability coefficients for the study variables.

Table 1: Descriptive statistics and reliability coefficients

Variable	Mean	SD*	Cronbach's alpha (α)
Transformational leadership	4.01	0.89	.899
Transactional leadership	3.65	1.06	.747
External business environment	3.47	1.00	.710
Organisational performance	3.72	0.90	.783

Source: Research data (2026)

The results show that the respondents reported high levels of transformational leadership (M = 4.01, SD = 0.89) and relatively moderate levels of transactional leadership (M = 3.65, SD = 1.06). external business environment indicated a moderate mean score (M = 3.47, SD = 1.00), indicating that housing mortgage finance companies operate in moderately dynamic and complex business environment. Organisational performance recorded a relatively high mean score (M = 3.72, SD = 0.90), suggesting a relatively favourable performance perceptions among the respondents.

The reliability coefficients demonstrate that all study constructs exceeded the acceptable minimum levels of minimum threshold of .70 for internal consistency, attaining alpha values ranging from .710 to .819. Transformational leadership recorded a reliability coefficient of (α = .819), followed by organisational performance (α = .783), transactional leadership (α = .747) and external business environment (α = .710). These results indicate that the measurement scales were reliable and suitable for subsequent statistical analysis**.**

The descriptive statistics, on the overall, suggest the presence of leadership practices and favourable performance outcomes within housing mortgage finance sector, with the reliability results confirming that the constructs for the study were accurately and consistently measured.

Model summary for hierarchical regression analysis

A three-stage hierarchical regression analysis involving three models was conducted to determine whether external business environment moderates the relationship between leadership style and organisational performance among Kenya's housing mortgage finance companies. In Model 1, leadership style was entered as the predictor variable. Model 2 involved the inclusion of the external business environment as an additional predictor. In Model 3, the interaction terms between transformational leadership and external business environment (TRANSFORMEB) and transactional leadership and external business environment (TRANSACEB) were introduced to test the moderation effects.

Table 2 below presents the model summary for hierarchical regression analysis results. Model 1 comprised leadership style as the sole predictor, explaining 50.2% of the variance in organisational performance, $R^2 = .502$, $F(1, 155) = 156.18$, $p < .001$. Model 1 was statistically significant, showing that leadership style was an important predictor of organisational performance.

Model 2 involved the inclusion of the external business environment. This inclusion increased the coefficient of determination significantly from R^2 = .502 to R^2 = .517, an increase of 1.5% of explained variance (ΔR^2 = .015, p = .115). The increase was statistically significant (ΔF = 4.836, p = .029), indicating that the external business environment significantly contributes to the explanation of organisational performance beyond leadership style alone.

Model 3 involved the introduction of the interaction term. This resulted in statistically significant improvement in the model. The determination coefficient from .517 to .572, indicating an additional 5.5% in explanatory relative to Model 2 (ΔR^2 = .055). The increase was statistically significant (ΔF = 9.687, p = .001) and the overall model also remained statistically significant F(1, 155) = 156.18, p < .001.

The significant increase in explained variance following inclusion of interaction terms suggests that the external business environment moderates the relationship between leadership style and organisational performance. The moderation effect suggests that the relationship between leadership style and organisational performance varies according to the prevailing external business environmental conditions. This indicates that the effectiveness of leadership styles is dependent on environmental munificence, complexity and dynamism in the business environment in which the housing mortgage finance companies operate.

Table 2: Model summary and ANOVA for Hierarchical Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.708[a]	.502	.499	3.862	.502	156.183	1	155	.000
2	.719[b]	.517	.511	3.815	.015	4.836	1	154	.029
3	.756[c]	.572	.560	3.616	.055	9.687	2	152	.000

a. Predictors: (Constant), Leadership Style
b. Predictors: (Constant), Leadership Style, External Business Environment
c. Predictors: (Constant), Leadership Style, External Business Environment, TRANFORMEB, TRANSACEB

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2329.261	1	2329.261	156.183	.000[b]
	Residual	2311.618	155	14.914		
	Total	4640.879	156			
2	Regression	2399.640	2	1199.820	82.442	.000[c]
	Residual	2241.239	154	14.553		
	Total	4640.879	156			
3	Regression	2653.021	4	663.255	50.715	.000[d]
	Residual	1987.858	152	13.078		
	Total	4640.879	156			

a. Dependent Variable: Organisational Performance
b. Predictors: (Constant), Leadership Style
c. Predictors: (Constant), Leadership Style, External Business Environment
d. Predictors: (Constant), Leadership Style, External Business Environment, TRANFORMEB, TRANSACEB

Source: Research data (2026)

Coefficients for hierarchical moderation analysis

Table 3 presents the hierarchical moderation coefficients for hierarchical regression model examining the moderating influence of the external business environment on the relationship between leadership style and organisational performance. The regression coefficients also are indicative of a significant moderating effect with Model 1 indicating that leadership style had a significant positive and statistically significant influence on organisational performance (β = .708,

t = 12.497, p < .001). This result explained a substantial proportion of variance in organisational performance.

For Model 2, after, controlling for external business environment, leadership style (β = .299, p < .126) became non-significant while external business environment remained significant (β = .427, p = .029).

In Model 3, the interaction term TRANSACEB was positive and significant (β = 1.627, p = .004), indicating that external business environment significantly strengthens the association between transactional leadership style and organisational performance. The finding here is suggestive that the effect of transactional leadership style may be contingent upon the external business environmental conditions, thereby supporting the proposed moderating effect of the external business environmental.

The findings of the hierarchical regression analysis also suggest that external business environment moderates the relationship between transformational leadership style and organisational performance (β = .708, t = 12.497, p < .001) in Model 1, with the interaction term between transformational leadership style and external business environment (TRANFORMEB) being statistically significant (β = -1.539, t = -4.399, p < .001). This implies that after the introduction of external business environment and the interaction term in the subsequent models, the direct effect of transformational leadership style became non-significant. This result demonstrates that the relationship between transformational leadership style and organisational performance varies across different levels of external business environment. The negative coefficient indicates that the strength of the relationship may decrease as the external business environment varies.

Table 3: Coefficient for Hierarchical Regression

Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.976	1.726		7.519	.000
	Leadership Style	.177	.014	.708	12.497	.000
2	(Constant)	16.921	2.475		6.837	.000
	Leadership Style	.075	.049	.299	1.539	.126
	External Business Environment	.167	.076	.427	2.199	.029
3	(Constant)	17.131	3.683		4.651	.000
	Leadership Style	.015	.049	.060	.306	.760
	External Business Environment	.212	.189	.544	1.124	.263
	TRANFORMEB	-5.925E-005	.000	-1.539	-4.399	.000
	TRANSACEB	.018	.006	1.627	2.917	.004

a. Dependent Variable: Organisational Performance

Source: Research data (2026)

Discussion of findings

Moderating influence of external business environment on the relationship between leadership style and organisational performance

The present study sought to determine whether the external business environment moderates the relationship between leadership style and organisational performance among housing mortgage finance companies in Kenya. The hierarchical regression results revealed that the inclusion of the interaction terms between leadership style and the external business environment significantly improved the explanatory power of the model (ΔR^2 = .055, p < .05), thereby increasing the proportion of the explained variance in organisational performance from 51.7% to 57.2%. This result indicates that the influence of leadership style on organisational performance is dependent

upon the prevailing external business environmental conditions. This finding supports the central notion of the Contingency Theory that organisational effectiveness depends on the alignment between leadership behaviour and contextual factors.

The study findings further showed that the interaction between transformational leadership style and external business environment was statistically significant, but negative, suggesting that as the environmental dimensions of munificence, dynamism and complexity increase, the positive effect of transformational leadership on organisational performance tends to weaken. A possible explanation for this is that the housing mortgage finance companies in Kenya operate in a performance-driven environment characterised by stringent regulations where managers are expected to focus on issues such as compliance requirements, operational efficiency, risk management and attainment of measurable financial targets. Within such environments, visionary, charismatic and inspirational leadership behaviours may become less conducive than practical and performance-oriented leadership approaches (e.g. Abbas & Ali, 2023). This finding, however, contrasts with the findings of Kiplagat et al. (2024), who reported that external environment strengthened the influence of transformational leadership on organisational performance among commercial state corporations in Kenya. Such difference in findings may be attributed to contextual differences between the mortgage finance industry and the public-sector. This is so because, while housing mortgage finance institutions operate within competitive financial markets that require strict performance accountability and rapid responses to environmental changes, state parastatals often pursue broader developmental objectives that may gain more from transformational leadership practices.

The findings further revealed that the interaction between transactional leadership and external business environment was positive and statistically significant ($\beta = .018$, $p = .004$), demonstrating that favourable environmental conditions strengthen the effect of transactional leadership on organisational performance. In volatile environments characterised by regulatory requirements, competitive pressure and performance targets, transactional leadership may provide accountability mechanisms, clear expectations as well reward systems that facilitate attainment of organisational objectives (e.g. Abbas & Ali, 2023). Consequently, transactional leadership become more effective when organisations operate in conditions requiring efficiency, measurable outcomes and compliance. This result supports the proposition of the contingency Theory that there is no universally effective leadership approach and that leadership effectiveness is contingent upon environmental factors. The positive moderating influence implies that housing mortgage finance companies operating in dynamic and competitive environments are more likely to attain superior performance when managers exercise transactional leadership practices such as clear performance standards, performance monitoring and contingent rewards. Such transactional leadership behaviours ensure employee efforts are aligned with strategic objectives despite environmental pressures. This is consistent with the study of Agyabeng (2025), who argues that transactional leadership tends to be more effective in situations which require structured performance management systems and clear accountability mechanisms.

The study, on overall demonstrates that the external business environment plays a significant role in influencing effectiveness of leadership styles. The study findings suggest that leadership styles ought not be considered separately from the environment within which organisations operate. However, organisational managers should align their leadership behaviours with prevailing contextual conditions to maximise organisational performance. Consequently, the findings provide empirical support for Contingency Theory and reinforce the proposition that organisational performance is maximised when leadership style is aligned with environmental conditions.

Implications of the study

The study findings have important implications, both for managerial practice and for theory. With regards to leadership practice, the results provide encouragement for leaders within housing mortgage finance companies to adopt environment-sensitive leadership behaviours. Transformational leadership remains important in inspiring and motivating employees, however, leaders its effectiveness may wane in uncertain and highly dynamic environmental conditions. On the contrary, managers should emphasise transactional leadership behaviours when responding to environmental pressures, given such adaptive approach may enhance organisational resilience, competitiveness and performance within the evolving mortgage industry.

For theoretical implications for leadership practice and organisational performance research, the study extends the Contingency Theory by demonstrating that the effectiveness of leadership practice is not determined solely by leader behaviours, but is as well influenced by the external business environment within which organisations operate. This result emphasises the core proposition of the Contingency Theory put forth by Fielder (1967) and further advanced by Donaldson (2006) that argues that organisational performance is contingent upon the alignment between leadership practices and contextual conditions.

Conclusion

The present study examined the moderating influence of the external business environment on the relationship between leadership style and organisational performance among mortgage finance companies in Kenya. The study results indicate that external business environment significantly moderates the relationship between leadership style and organisational performance, thereby affirming support for the propositions of the Contingency Theory that leadership effectiveness is contingent upon environmental conditions.

The findings also indicated that the moderating effects of the external business environment varies across leadership styles, with environmental conditions weakening the influence of transformational leadership and strengthening the influence of transactional leadership. Consequently, the study concludes that leadership effectiveness is contingent upon the prevailing business environmental conditions and that organisations are likely to attain better performance when leadership practices are aligned with environmental demands.

The study contributes to leadership theory, providing empirical evidence that organisational performance is influenced, not just by leadership style alone, but also by the interaction between leadership approach and environmental demands. Consequently, leaders in housing mortgage organisations should exercise flexible leadership practices that appropriately respond to environmental changes.

Based on the findings, the study recommends that mortgage finance companies should adopt leadership approaches that align with prevailing environmental conditions. In essence, managers should strengthen transactional leadership practices involving clear communication of expectations, accountability mechanisms, monitoring as well as reward systems when operating within competitive and dynamic environments. Further, such organisations should continuously scan and monitor their operating environments for changes in economic, regulatory, competitive, and technological conditions in order to ensure that leadership practices are responsive to environmental changes. Alignment between leadership styles and external business environment is likely to improve organisational performance and ensure sustained competitiveness of the mortgage finance companies in Kenya.

Policy makers and industry regulators should develop regulatory frameworks that are responsive, stable and supportive to enable mortgage finance organisations respond effectively and promptly to changing environmental conditions. Furthermore, industry regulators should emphasise and

encourage leadership development programmes that equip managers of such institutions with skills to enable application of appropriate leadership approaches under varying environmental conditions. Further, government agencies involved in the sector should develop and implement policies that facilitate access to long-term financing and strengthen the housing finance system, hence creating an enabling environment for organisational performance.

Based on the findings and limitations of this study, several areas for future research are recommended. Future research could examine alternative leadership styles and mixed method approaches to generate deeper insights into how contextual conditions influence leadership effectiveness and organisational performance. Future research could also use longitudinal research designs to investigate variations in the leadership and performance relationships overtime and conduct the same study across industries to expand generalizability. Additionally, further research may be required to examine the separate moderating influences of environmental complexity, dynamism and munificence, while simultaneously studying the roles of other environmental variables such innovation capability and organisational culture.

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