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The Influence of Strategic Leadership on Organizational Performance in the Banking Sector in Kenya

Harrison K. Mwangi
Mount Kenya University, Kenya

***Corresponding Author:**
Harrison K. Mwangi
Email: kimotholj@gmail.com

Abstract: Leadership in an organization is like a cornerstone in a storey building in that the leader gives the direction and guidance towards achievement of the set goals. Most of the organizations do have the drafts, but how the leader decides in terms of priority and resource allocation determines the overall outcome. Thus, a visionary leader in any organization is a tree seedling that needs to be nurtured. This paper explores the influence of strategic leadership on organizational performance in selected banks within Nakuru Sub County. The study used primary data obtained from the respondents and secondary data from the journals, books and other print media. The study employed a descriptive survey design. Structured questionnaire to collect data where both closed and open-ended questions were used to get the opinions of the respondents. There was 84% response rate and only 16% non-responses. The data collected was first coded and the opinions of the respondents analyzed by use of statistical package for social sciences (SPSS). Pearson correlation and Chi-square tests were used to estimate the relationship between the strategic leadership and the organization performances. The data was later presented in tabular form and charts for easier interpretation. It was hoped that the findings of the study would clearly show the importance of developing strategic leaders that will create a viable future for the organization.

Keywords: Strategic Leadership, Organizational Performance, Banking Sector.

INTRODUCTION

In some firms and institutions, there have been wrangles on the legitimate faction to lead the organization as seen with the Non-Governmental organization's council. This leads to loss of credibility in these institutions. The growing leadership problem in our institutions largely contributes to the poor performances that most of the firms are experiencing. One of the top manager's roles is to offer direction on how leaders and top managers direct the operations at the firm. Robbins [1] observed that leaders need to have strategic flexibility, which is the ability to recognize major external environmental changes to quickly commit resources and recognize when strategic decisions are not working. Guillot [2] argues that since leadership competences differ it is expected that the performances will also differ. This may contribute at large to the overall achievement of the firms intended outcomes. Visionary leaders help their firms achieve far beyond their expectations. Strategically, the boards of directors needs to ensure enough resources are set aside to empower and equip their leaders since effective leaders analyze their environment and come up with workable strategies to survive in the market.

The banking industry in Kenya is governed by the company Act and the Banking Act and guidelines issued by Central Bank of Kenya (CBK). As at December 2008, there were forty-six banking and non-banking institution. Fifteen microfinance institutions and one hundred and nine foreign exchange bureaus. Banks came together under Kenya Bankers Association (KBA), which serves as a lobby for the banking industry sector. The association serves as a forum to address issues affecting members. Over the last few years, the sector in Kenya has continued to grow in assets, deposits profitability and products offered. The growth has been underpinned by the industry wide network of branches (expansion strategy), and automation of a large number of services and a move towards emphasis on the complex customer need rather than traditional "of the shelf" banking products. Luthans [3] comments that the achievement of the organizational success is not a chance occurrence but largely determined by the decisions made by the strategic leaders. In view of the above there was a need to explore the influence of strategic leadership on organizational performance in selected banks and was the task of the study from which this paper was extracted.

Brief Background

What leaders do and say affect the organization's performance. The action of the corporate leader may affect the firm's performances positively or negatively. Due to leaders being visionary and strategic, it helped their firm's record very high and outstanding performances as compared to others in the same industries. Firms may be operating in the same environment having similar threats and opportunities but how the firms' leadership respond to them differ greatly leading to some making huge profits while others making losses or recording very low performances. According to Luthans [4], research has identified leadership competencies related to leadership effectiveness in both the USA and other countries. They include the drive to pursue goals, integrity, self-confidence, intelligence, knowledge of the business generated to help the company survive and thrive, and emotional intelligence based on self-monitoring personality making quality leaders in situation sensitivity and the ability to adapt to circumstances as needed.

Lussier [5] observes that in today's rapidly changing world, leaders are bombarded with conflicting information; thus, making effective decisions becomes a challenge. He adds that the complexity of the environment and the uncertainty of the future make the task of the strategic leader more difficult. Stoner [6] argues that decision-making has five distinct phases: Defining the problem, analyzing the problem, developing alternative; solution deciding upon the best solution, converting the decision into effective action. Depending on how the situation may appear to, a leader is expected to make a decision, which will positively or negatively affect the organization. Thompson [7] viewed that although Jack Welch, former CEO of General Electron is often used as a model of successful strategic leadership; some critics have said that Welch's excessive focus on financial business objectives prevented him from leading through a broader and more humane moral horizon.

The nature of the decision tells if the person is a leader or a manager since many practitioners have emphasized the differences between managers and leaders. Bennies [8] has noted "to survive in the twenty first century, we need new generation of leaders not managers". He distinguished them by saying that, "leaders conquer the context – the volatile, turbulent, ambiguous surroundings that sometimes team to conspire against us and will surely suffocate us if we let them, while managers surrender to it". Bennis [9] further gave specific differences between leaders and managers as shown below.

Managers characteristics	Leaders characteristics
• Administrator	• Innovative
• A copy	• An original
• Maintain	• Develops
• Focuses on systems and structure	• Focus on people
• Relies on control	• Inspires trust
• Short range view	• Long-range perspective
• Ask how and when	• Asks what and why
• Eye on the bottom line	• Eye on the horizon
• Initiates	• Originates
• Accepts the status quo	• Challenge the status quo
• Classic good soldier	• One person
• Does things right	• Does the right things

Kottler [10] distinguished management from leadership by defining management as coping with complexity while leadership is all about coping with change. He says that the business world has become more competitive and more volatile and thus to survive and compete effectively in new environment major changes are more and more necessary. Thomas and colleagues [11], while examining the role of ethics in the strategic leadership process, conclude that the ultimate goal of the strategic leader should be to build sustainable internal programmes into strategic management framework that encourage positive regulation of ethical behavior as a matter of routine within the organization. However, Worden [12] posits that this will not happen, unless the leader also demonstrates integrity. Integrity influences the credibility and reputation of the strategic leader. Thompson[13] underscoring the significance of ethics and moral leadership, on July 9, 2002, the president of USA announced in the wake of series of business scandal that America's "Greatest Economic need" was higher ethical standards to be upheld by responsible business leaders. Hastings [14] mentions that a leader is considered trustworthy by employees because they have seen years of a consistent match between his words and actions, a proof of his integrity.

Sampled banks in Nakuru Township

The past decade has seen the growth of the banking industry to a greater height where over five new banks previously not operating in Nakuru have opened their doors to the public. They include bank of Baroda, NIC bank, and Stan chart Bank, ABC Bank, Diamond Trust Bank, Eco bank among others…

Barclays Bank

The bank has operated for over 90 years. It is one of the major foreign banks that operate in Kenya with an extensive network of over 100 branches where 45 percent of the total branches are situated at Nairobi and 215 of its ATMs are spread across the country. Its performance in the Nairobi Stock Exchange has gradually build confidence among the 48000 shareholders (Banks website). In Nakuru, it was among the first banks to open more than one branch.

National Bank of Kenya Limited

The National bank of Kenya limited (NBK) was officially opened on 1968. It was formed to help Kenyans access credit and thus be able to control their economy after independence. In 1994, the Government reduced its shareholding by 32% (40 million shares) to members of the public. In May 1996, the government further reduced its shareholding by 40 million shares to the public. Its current shareholding stands as follows; national Social Security Fund (NSSF) 48.06%, General public 29.44% and Kenya Government 22.5%. Besides, the financial services, the bank is actively involved in the stock market playing multiple roles as an arranger, underwriter and placing agents. The bank is an appointed fiscal agent and market maker in the secondary market.

Equity Bank of Kenya

The banks started its operations in 1984 after registration as a building society. It has since evolved from a microfinance institution to a full commercial bank. It is among the well performing banks listed in the NSC and Uganda Securities Exchange. The bank has the highest customer base in Kenya. The bank has received both local and global accolades for its unique and transformational financial model. In June 2009, the bank was the emerging markets most sustainable bank of the year in Africa and Middle East. In the month that followed equity, banks received the Africa Business of the year 2009 Award at the commonwealth business council and Africa Business Awards. The bank was later voted to be the best microfinance bank in Africa at the Africa Banking Awards in Istanbul Turkey (Bank's website)

The Strategic Role of the Employees Training

According to Pearce [15], Leadership development is the effort to familiarize future leaders with the important skills to the company and to develop exceptional leaders among the managers you employ. Training and retaining the employee is crucial when a firm shifts to a strategy requiring different skills. Training is important in the organizations efforts to build skills-based competencies. Guillot [16] argues that development of a strategic leader involves a number of important aspects. First, the most important part of this preparation concerns values, ethics, codes, morals. Second, the path to strategic leadership resembles the building of a pyramid as shown on the figure 1 below.

Fig-1: Anatomy of a Strategic Leader [17]

Strategic leaders are made, not born. Leaders should know that even though some individuals with strategic competency may not become strategic decision makers, they could still influence and contribute to decisions. Strategic leadership begins with organizational values, standards, and ethics, then develops an abstract body of expert knowledge based primarily on experience where continuing education can influence, expand, and accelerate development. After this, the leader is exposed to command responsibility and accountability; a phase during which the leader gets his or her first real taste of consequential decision-making. He adds that further education in strategic-thinking skills enhances the leader's competence. Ultimately, the leader participates in strategic decision-making and become a strategic leader.

Quist [18] suggested action steps that may help organizations in developing leaders capable of leading in turbulent times. The steps are as follows; commit to be a mentor, seek out employees with leadership potentials, develop an intentional and formal program of mentoring with a carefully laid out scope and sequence to include all the Skills and knowledge needed to be a leader, and enrolling followers committed to training others in the skills they have learnt. He argues that turbulence times will not disappear, and therefore for organizations to survive into the future, they need credible leaders who are prepared to lead in our future.

To build a successful strategy the leader need to ensure the training of employees is both adequately funded and effectively done. However, Johnson and Scholes [19] point that good or poor performance is found in deployment, rather than availability of the resources. According to them, leadership is important in achieving the expected results for the firms. Companies have liaised with training institutions to lead the training efforts, facilitate continuous organizational learning, and help upgrade company competencies and capabilities. This helps them to be up to date in the areas of technology and on top. Pearce [20] Organizational leadership is the process and practice by key executives of guiding and shepherding people in an organization towards a vision over time and developing that organization future leadership and organization culture. At this point, the leader needs to be in the forefront as a role model in promoting the training efforts. The leaders need to continuously see the need for increased knowledge in the organization and promote this like orientation sessions for the new employees, find an assortment of competencies building training programs, reimburse employees from the tuition and other expenses associated with obtaining additional college education, attending professional development courses.

The board of directors has a duty to the shareholders to play a vigilant supervisory role in the company's strategy making and execution process. They are obliged to; critically appraise and ultimately approve strategic action plans, evaluate the strategic leadership skills of the CEO and others in line to succeed the incumbent CEO and institute compensation plan for top executives then reward them for actions and results that serve stakeholders interests.

Competitive advantage

Barney [21] argues that a firm experiences competitive advantage when its actions in an industry or market create value and when few competing firms engage in a similar action. Firms gain competitive advantage when their theory of how to compete in an industry is consistent with the underlying economic processes in that industry or market and when few other firms share this theory or are unable to act upon it as completely. In reference to this, leaders need to develop and sustain competitive advantage for their organization.

STUDY FINDINGS

Demography of the Respondents

The management in selected banks is composed of young staffs that are trained to at least a bachelor's degree level. The management comprises of almost a balance between the male and female. 93% of all the respondents had above a degree and this show that competence in what one does were an advantage to the firm. The study also found out that the management is made up of mid-age people who are energetic in the work. It also shows that few were over 45 years of age and these we can refer them as persons with enough experience and thus despite them being few they could guide the rest of the team.

Leadership Qualities

There are many qualities that a leaders need to achieve the company targets. The respondents were asked to choose from the list the single most quality they felt was the most important. Table 1 below indicates that 48.8% of the total respondents choose team player as the most important quality.

Table-1: Leadership Qualities

Quality	Frequencies	%
Supports and motivates his team	0	0
Commitment to the work	0	0
Communicates effectively	1	2.3
Innovative	6	13.9
Visionary	13	30.2
Resource mobilize	0	0
team player	21	48.8
strong analytical skills	1	2.3
Integrity	1	2.3
Delegates responsibility	0	0
Total	43	100

This translates to almost 50% and this shows that according to employees' views, for a leader to successfully achieve the desired performances then he/she needs to be someone who is a team player.

Table-2: Leaders Contribution to Performances, Cross Tabulation

Count

		Leaders contribution to performances		
		strongly contributes to performances	Moderately contributes to performances	Total
Single most important quality	Communicates effectively	1	0	1
	Innovative	6	0	6
	Visionary	12	1	13
	team player	17	4	21
	strong analytical skills	1	0	1
	Integrity	1	0	1
Total		38	5	43

The single most important quality tabulated above were subjected to chi-square test and the below results were obtained.

Table-3: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.505(a)	5	.776
Likelihood Ratio	3.411	5	.637
Linear-by-Linear Association	.422	1	.516
N of Valid Cases	43		

Source: Researcher (2010)

A 9 cells (75.0%) have expected count less than 5. The minimum expected count is .12.

The study failed to reject $H_0 3$ since
$H_0 3$ Pcsv=2.505, df =5 and probability 0.775
Pcsv-Pearson Chi-square value 2.505(a)
Df-Degree of freedom 5
p-Significance of 0.776

The results in table 3 above show that 0.776 is much greater than 0.05 and thus accepted the Null hypothesis that a single quality on its own has no effect on the performance of the firm. One needs a combination of several qualities to succeed. This shows that a strategic leader cannot be described by use of only one quality.

Organization Performances

The performance of a firm is dependent on a number of factors. This may range from resource availability to market position of the firm. In all these factors, the role of strategic leaders is to be able to scan the environment and understand the available opportunities and the possible threats likely to be faced. The leader plays a major role in determining the overall performances of the firm. The study has shown that organization performances are dependent on the leadership of the organization. Looking at the importance attached to the leadership of the organization, the management need to ensure they recruit visionary and people with capabilities necessary to allow the firms compete effectively.

CONCLUSION

In conclusion, the study findings show that a strategic leader is a person who has the ability to balance the different aspects that contribute either positively or negatively to the performances of the organization. Moreover, it is established that leaders' attributes differ from one individual to the other and how they respond to differing, situations also differ. This explains why we also have firms record differing performances whether in terms of revenue or in other aspects. Therefore, strategic leadership greatly influences organizational performance in in organisations and banking sector in Kenya has clear indications of this impact.

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