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STRATEGIC LEADERSHIP AND IMPLEMENTATION OF STRATEGY IN COMMERCIAL BANKS IN KENYA: A CASE STUDY OF STRATEGIC DIRECTION

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Abstract

Purpose: The purpose of the study was to investigate the influence of strategic leadership on the effective implementation of strategy in the commercial banks in Kenya. More specifically, the study investigates the effect of strategic direction on the implementation of strategy in commercial banks.

Methodology: Adopted a quantitative research design whose target population was the top management team in the commercial banks in Kenya. The instrument of data collection was tested for reliability using the Cronbach alpha test and for validity using the KMO and Bartlett's test. Statistical analysis was then carried out on the data collected.

Findings: The findings from the study revealed that the five constructs of strategic direction namely: the vision/mission/strategic intent clearly defined and understood, using incentive compensation, facilitating employees' meaning-making of changes, management not too committed to status quo as to avoid any perceived risks, and the CEO's personality inclined towards change significantly influence on the implementation of strategy in the commercial banks.

Key Words: *Strategic Leadership, Strategic Management, Strategic direction.*

1.0 Introduction

Leadership and strategic management are two widely studied areas in academic literature. However, scanty information exists regarding the nexus of the two fields and how it influences the performance of business entities. More particularly how leadership influences strategic management and hence the performance of the business. Strategic leadership when effective helps develop organisation goals and then drives performance to ensure that the goals are achieved. Strategic leadership is focused on coping with change and this could be achieved in two ways by the organisational leadership. The first is guiding the organization to deal with change and the second is by providing the management skill to cope with the ramifications of constant change (Pearce & Robinson, 2011).

Strategy implementation is a key component of the strategic management process. There is a lot more effort and resources invested by organizations in the formulation process than the implementation and control of strategy (Hrebiniak, 2006). Strategy implementation has three facets: leadership implementation, organizational structure implementation, and policy and resource deployment implementation. Leadership implementation (specifically strategic leadership) involves coping with change and thus the process of implementing strategy often requires change especially in current times when the business world has become more volatile and competitive and leaders are expected to drive this change (Ehlers and Lazenby, 2004; Kaplan and Norton, 2001). Strategic leadership guides the organization deal with constant change by embracing change in the leadership itself. This is by clarifying strategic intent that build their organization and shape their culture to fit with the opportunities and challenges that change affords, in addition to providding management skill to cope with the implications of constant change (Pearce & Robinson, 2011). Organizational structure implementation refers to the ability to select the appropriate strategy and match it with the appropriate organization structure and is considered an essential characteristic of effective strategic leadership (Hitt & Collins, 2007; Pearce & Robinson, 2011). Strategy guides structure and not vice versa and restructuring may be necessary to emphasize and support strategically critical activities, in addition to reengineering the strategic business processes, down-sizing and self-managing to force decisions to operating levels (Pearce & Robinson, 2011).

1.1 Strategic Direction and Strategy Implementation

Several studies have emphasized on the relationship between strategic direction and strategy implementation with some using organization performance as the dependent variable as a proxy to strategy implementation. Studies that have reviewed strategic direction as an action characteristic of strategic leadership have ranked the actions in order of importance and consistently determining strategic direction comes out as the most important of the actions. This was the case in the study by Hagen et al. (1998) which entailed exploring the most critical strategic leadership criteria. Their analysis comprised six criteria which were strategic direction, core competencies, human capital, organizational culture, ethical practices and organizational controls. They also examined American CEO's perceptions of the ranking suggested in Hitt *et al.* (2013). The results indicated that determining strategic direction is amongst the most critical components of strategic leadership in a corporate entity. They however noted that exercising strategic controls affects the other five components as well. As predicted by Hitt *et al*. (2013), the CEOs accepted the rankings of the most critical components with determining strategic direction as the most critical with one exception: they emphasized developing human capital over maintaining original core competencies to reflect the importance of human resources in the 21st century (Hagen *et al.*, 1998).

In a study to investigate the perceived role of strategic leadership in the implementation of strategy in South African organizations targeting strategic leaders in the South African organizations listed in the South African Financial Mail Top 200 companies, Fourie (2007) also established that as predicted by Hitt *et al.* (2013), determining the organizations's strategic direction is not only perceived to be the most important strategic leadership role in South African organizations but that it is also the strategic leadership action that is perceived to play the most important role in the effective implementation of strategy.

Serfontein (2010) examined the impact of strategic leadership on the operational strategy and performance of business organizations in South Africa and found that strategic leadership is directly and indirectly positively associated with operational strategy and organizational performance. The independent variable was strategic leadership where the six components of strategic leadership in Hitt *et al.* (2013) model was reconceptualized as three interrelated constructs of action (determine strategic direction and exploit core competencies), coherence (maintain core competencies, develop human capital, and emphasize ethical practices) and discipline (establishing balance between strategic controls and financial controls, and sustaining an effective corporate culture). The dependent variables were strategy orientation (strategy formulation and implementation), operational excellence (cost management, product differentiation and integration of the people) and organization performance (ROA, EPS and self reported performance). The reasearch concludes that strategic leadership is directly and positively associated with the operational strategy orientation and organizational performance of business organizations in South Africa. This is consistent with the conclusion in Fourie (2007)

Kihara, Bwisa, & Kihoro (2016) showed that strategic direction did not have a significant relationship on the performance of the manufacturing SME firms in Thika Sub-County, Kenya, attributed to the fact that in this study, strategic direction was considered to be an indirect predictor of performance, that is, an antecedent variable. This implied that since strategic direction was an antecedent variable, its role during strategy implementation usually was taken up by the other predictor variables (leadership styles, structural adaptations, human resources and technology). This confirms the finding by Lumpkin & Dess (1996) who observed that the relationship between strategic orientation and organizational performance is influenced by many third-party variables, and the different effects of third variables may lead to different performance levels, leading the researchers to recommend that studies on the complex relationship between strategic direction and other predictor variables should be conducted in specific contexts. Liu and Fu (2011) noted that existing empirical evidence on relationship between strategic orientation (direction) and organization performance (strategy implementation) is mixed, and moderators and mediators are therefore introduced.

Chirico and Sirmon (2010) in a study to establish the influence of entrepreneur orientation on performance moderated by generational involvement on family firms and participative strategy found additional support for the baseline expectation that increased entrepreneurial orientation positively affects the performance of family firms. On the moderation the study found that generational involvement inhibits the entrepreneurial orientation/performance relationship, unless high levels of participative strategy are utilized.

2.0 Leadership and performance of commercial banks in Kenya

The total financial sector share of Kenya's GDP as at 31 December 2015 was 83.27% of which 56.11% was banking net assets, with pension industry, 13.08%, insurance industry, 7.7%, with SACCOs, 5.27%, and microfinance assets, 1.12%, which demonstrates that the financial sector in Kenya is dominated by the banking sector. Total banking sector's assets (including microfinance banks) were KES 3.49 trillion which being 56.11% of the nominal GDP of Kenya (KES 6.22 trillion) by end of December 2015 (CBK, 2017).The banking sector in Kenya comprises of 43 commercial banks licensed under the Banking Act and regulated by the Central Bank of Kenya (CBK). They are licensed and regulated in accordance with the provisions of the Banking Act and the Regulations and Prudential Guidelines issued thereunder. Of the 43 commercial banks, 25 are locally controlled, 15 are foreign (over 50% foreign ownership) and 3 are state owned (over 50% shareholding by government or state corporation). As at 31 December 2016, of the 43 commerical banks, 3 were not in operation, 1 was under statutory management and 2 were in receivership. Other institutions regulated and supervised by the CBK include microfinance banks, forex bureaux and money remittance providers, credit reference bureaux, and representative offices of foreign banks (CBK, 2017).

Strategic leadership in the banks could be considered to comprise the top management team (TMT) and headed by the Chief Executive Officer. The CEO is assisted by a management committee comprising of the heads of department which take different names either as Management Commmittee (ManCom) or Executive Committee (ExCo) and in most cases will be based at the head office for the banks, all of which are located in Nairobi. The size of the TMT in the bank varies with the size of the bank such that the large banks have larger sizes of TMTs while the small banks at the other end have relatively smaller sizes of TMT.

The banking sector experienced waves of failure in periods tranched as 1986-1989, being the first wave, then 1993-1994, the second wave followed by 1998 being the third wave (Waweru & Kalani, 2009). The subsequent period from year 2000 to 2015 was relatively tranquile with no bank failure reported until the second half of 2015 when two banks were put under receivership by the regulator, the Central Bank of Kenya for what was indicated as failure in corporate governance at the institutions with consequent deterioration of the financial conditions. This was closely followed by another bank being put under receivership in April 2016 for what was described as inability to meet their financial obligations in the Clearing House again pointing to failure of corporate governance at the institution. The Annual Bank Supervision Reports of the Central Bank of Kenya (CBK, 2015d) indicate that poor performance amongst peers has generally been low and a review of the Annual Reports of the Bank Supervision Department of the Central Bank of Kenya (CBK, 2017) show a fairly stable performance trend for the period after year 2000 till 2015.

Whereas the good performance could be attributable to regulatory measures that have been put in place since the banking sector's challenging periods of 1980s and 1990s , it could also be attributable to effective leadership provided by the strategic leaders in the individual commericial banks in Kenya which may have enabled them to implement the strategies they had laid out to pursue in the normal strategy setting process. This study was carried out on the strategic leaders in all the operating commercial banks in Kenya and all the top level management staff were considered to comprise the strategic leaders as they were directly responsible and involved in the strategy implementation process in the commerical banks. The CEO is a member and head of the top management team. This therefore posit a research gap as to what role determining strategic direction as an action characterisitic of strategic leadership play in influencing the implementation of strategy hence corporate performance, a gap that this study seeks to fill.

3.0 Methodology

The paper employed a multivariate regression model which takes the general representation of form:

$$Y_i = \beta_0 + \beta_1 X_{i1} + \ldots\ldots\ldots\ldots\ldots \beta_p X_{ip} + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

Where:

y_i = the value of the i^{th} case of the dependent scale variable

p = the number of predictors

β_j = the value of the j^{th} coefficient, j=0,...,p

x_{ij} = the value of the i^{th} case of the j^{th} predictor

ε_i = the error in the observed value for the i^{th} case

The regression model for the influence of the seven predictor variables on the strategy implementation is as follows:

$$SI_i = \beta_0 + \beta_1 SD_i + \beta_2 CC_i + \beta_3 HC_i + \beta_4 SC_i + \beta_5 OCu_i + \beta_6 EP_i + \beta_7 OCoi + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Where:

SI	=	Strategy Implementation
SD	-	Strategic Direction
CC	-	Core Competencies
HC	-	Human Capital
SC	-	Social Capital
OCu	-	Organizational Culture
EP	-	Ethical Practices
OCo	-	Organizational Controls

Data for the estimation of the empirical model was drawn from a sample size of 436 drawn from top management of 40 commercial banks. This was established by requesting each of the banks to provide lists of all and email contacts of each of its top management team members. Banks use different names for this group of staff most commonly referred to as Management Committee (ManCom or MAC) or Executive committee (ExCo). Questionnaire through a survey-monkey tool was administered to the respondents. Secondary data was obtained from the Annual Report of the Bank Supervision Department of the Central Bank of Kenya which is available on the CBK website (CBK, 2017). Cronbach alpha was applied to test the reliability of the research questionnaire.

4.0 Results Discussion

Pearson's correlation results between strategic direction and strategy implementation shows that having the vision/mission/strategic intent clearly defined and understood by staff was the most significantly correlated with r = 0.450, p<0.01, followed by using incentive compensation for management to align action to strategy implementation, r = 0.394, p<0.01. Third most significantly correlated to strategy implementation is management facilitating employees' meaning-making of changes to achieve the envisioned future through communication, with r = 0.354, p<0.01, followed by the CEO and the top management team being too committed to the status quo, thus avoiding any perceived risky actions, with r = 0.320, p<0.01. Finally, the CEO's personality being inclined towards initiation of strategic change and performance effects of strategic change implementation, was also significantly correlated scoring r = 0.230, p<0.01. All the five items in this strategic direction dimension therefore display significant correlation with the composite variable of strategy implementation.

Table 1: Correlation Coefficients for the Strategic Direction Components

Correlation between dependent variable and:	**r Value**	**p value**	**N**
SD1	**0.450*** **	0.000	162
SD5	**0.394*** **	0.000	161
SD3	**0.354*** **	0.000	162
SD4	**0.320*** **	0.000	162
SD2	**0.230*** **	0.003	162

*Note: Significance at the 10%, 5%, and 1% level is denoted by *, ** and *** respectively*

SD1 The vision/mission/ strategic intent is clearly defined and understood by the staff
SD2 CEO's personality inclined towards initiation of strategic change and performance effects of change
SD3 Facilitating employees' meaning-making of changes through communication
SD4 Top team are too committed to the status quo, avoiding any perceived risky actions
SD5 Use of incentive compensation for top team to align management action to implementation of strategy

A composite variable for Strategic Direction was constructed using the Strategy Implementation correlates that were found significant at the 1% and 5% levels of significance as shown in Table 1. All the five items are significant and these are: the vision/mission/strategic intent clearly defined and understood, using incentive compensation, facilitating employees' meaning-making of changes, management not too committed to status quo as to avoid any perceived risks, and the CEO's personality inclined towards change.

The correlation of the sub-construct: management not too committed to the status quo, with the return on assets was tested. Return on assets, which is an average over the last five years is a proxy for the financial performance over an extended period of time showing that there is a significant positive correlation (r = 0.178, p<0.05) between the CEO and TMT being committed to status quo and the good financial performance of the bank in the past.

The Composite Regression model Results

Table 2, presents the results of the regression model of the composite effects of the seven predictor variables: strategic direction, core competencies, human capital, social capital, organizational culture, ethical practices, organizational controls on the strategy implementation in banks. Regression analysis was used to test if the seven predictor variables significantly impact on the banks' effective implementation of strategy while controlling for the environmental complexity (moderating variables). The results of the regression indicated that two predictors explained 37.7% of the variance (R^2=.377, F (2,159) = 47.554, p<.001). It was found that "Strategic Direction" significantly predicted the banks' effective implementation of strategy (β =.836, p<.001). It was also found that "Organizational Controls" significantly predicted the banks' effective implementation of strategy (β =. 685, p<.001).

Table 2: The Moderated Model Results

Model Summary

R	R^2	Adjusted R^2	SE	Change Statistics				
				R^2 Change	F Change	df1	df2	Sig. F Change
0.614[a]	0.377	0.369	1.1065	0.377	47.554	2	157	0.000

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	116.456	2	58.228	47.554	0.000[b]
Residual	192.238	157	1.224		
Total	308.694	159			

Model

	Unstandardized Coefficients	**Standardized Coefficients**	**t-statistics**	**Sig.**	**95.0% Confidence Interval for B**	**Collinearity Statistics**

	β	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	0.023	0.625		0.037	0.971	-1.212	1.258		
Strategic Direction	0.836	0.178	0.359	4.695	0.000	.484	1.188	0.677	1.476
Organizational Controls	0.685	0.157	0.334	4.370	0.000	0.376	0.995	0.677	1.476

Excluded Variables	**Beta In**	**t**	**Sig.**	**Partial Correlation**	**Collinearity Statistics**		
					Tolerance	**VIF**	**Minimum Tolerance**
Moderating Variables	-0.039[b]	-0.608	0.544	-0.049	0.968	1.033	0.660

The analysis for the variables that were excluded on the account of not significantly predicting the banks' effective implementation of strategy, is shown in Table 3. The excluded variables are core competencies, human capital, social capital, organizational culture, ethical practices, and the moderating variables.

Table 3: The Excluded Variables

Excluded Variables	**Beta In**	**t**	**Sig.**	**Partial Correlation**	**Collinearity Statistics**		
					Tolerance	**VIF**	**Minimum Tolerance**
Core Competencies	0.028[c]	0.331	0.741	0.026	0.543	1.841	0.543
Human Capital	0.086[c]	0.947	0.345	0.076	0.481	2.077	0.481
Social Capital	0.128[c]	1.624	0.106	0.129	0.634	1.578	0.596
Organizational Culture	0.044[c]	0.523	0.602	0.042	0.570	1.754	0.570
Ethical Practices	0.145[c]	1.766	0.079	0.140	0.582	1.719	0.559
Moderating Variables	-0.039[c]	-0.608	0.544	-0.049	0.968	1.033	0.660

From the excluded variables in the Moderated Study Model in Table 3 it is observed that if the level of statistical significance in the model was relaxed to 10%, then Ethical Practices, becomes a statistically significant variable in terms of influence on the dependent variable, $p = 0.079$.

5.0 Conclusion

The objective of the paper is to determine the influence of establishing the organization's strategic direction on the effective implementation of strategy in commercial banks in Kenya. The study found that the respondents ranked determining strategic direction as the most important of the strategic leadership actions. Similar studies in different jurisdictions in the USA (Hagen *et al*.,1998), in South Africa (Fourie, 2007; Lear, 2012) and transcontinental covering US, Western Europe, Latin America and Japan (Bass, 2007) also found that the respondents ranked determining strategic direction as the most important strategic leadership role. The study found that determining strategic direction had a significant influence on strategy implementation. Determining strategic direction involves specifying the vision and the strategy or strategies to achieve the vision over time, and generally specifies the image and character the firm wants to develop over time (Hitt *et al*., 2013).

On the five constructs of strategic direction, respondents ranked having the vision/mission/strategic intent clearly defined and understood by the staff as the most important of the sub-constructs of the construct of determining strategic direction. This outcome is aligned to Bass's (2007) observation where respondents indicated that it is very important for the CEO to convey a vision of the organization's future. In addition, having the vision/mission/strategic intent clearly defined and understood by staff was the most significantly correlated with strategy implementation. This shows both in terms of what the respondents consider as an important leadership action, and what influences implementation of strategy most, putting in place a vision/mission/strategic intent that clearly defined and understood is the most important of the sub-constructs of determining strategic direction.

The CEO's personality was found to be strongly correlated with Strategy Implementation. This concurs with Herrmann & Nadkarni (2014) who contend that the CEO's personality will determine both initiation of strategic change and the performance effects of strategic change implementation. Personality of the CEOs shape how they communicate with, reward, motivate and mobilize employees, which determines the success or failure of strategy implementation (Herrmann & Nadkarni, 2014). Boal & Hooijberg (2000) argue that CEOs' personality shapes how they define strategic vision and goals which in turn determines the personality of people that are attracted to and retained in the organization. This will mainly be the top management team members (the study's respondents) and middle managers, who are the principal drivers of strategy implementation in the banks. Though CEO's personality is strongly correlated to strategy implementation, it was the least strongly correlated of the five sub-constructs of strategic direction. This contrasts with the respondents considering this sub-construct as the second most important of the sub-constructs of strategic direction. This could be an indication of the fact that there is an over emphasis on the importance of the CEO's personality in the banks while its influence on strategy implementation is not as highly placed. This outcome could be related to the observation by Herrmann & Nadkarni (2014) that some traits dispose leaders to instil strong direction and achievement while other traits foster passivity and conflict avoidance hindering implementation success, and should the later be dominant, the influence of these traits on implementation success will be diminished, while the respondents had in mind the former which instil strong direction.

The alignment of the incentive compensation for the executives to the strategy choice and hence performance has been atrracting interest in research and in this study, it is found that incentive compensation for the top management team was the second most significantly correlated sub-construct of strategic direction with strategy implementation, which implies that incentive compensation aligns management action to the effective implementation of strategy. This is in agreement with the findings of the study by Wowak & Hambrick (2010) who found that incentive compensation, in their case using stock options, enocuraged talented CEOs to select best strategies leading to high performance. It was observed that incentive compensation stimulate aggressive risk taking which magnifies the effects of CEOs' skill levels. It would have been interesting to see the effect of incentive compensation on talented CEOs compared to their less talented peers as Wowak & Hamburg (2010) found that the less talented CEOs generated worse results on average under incentive compensation producing diminished performance partly because the aggressive risk taking stimulated by incentive compensation amplifies the poor skill levels in strategy selection and implementation hence performance. The study respondents also ranked the use of incentive compensation with a mean score of 3.15 implying marginal agreement otherwise virtually indifferent on the use of incentive compensation. Given that the sub-construct was the second most correlated to strategy implementation in the banks yet the respondents are virtually indifferent to its use shows the lack of allignment and the need to encourage the use of incentive compensation to align management action to setting strategic direction which is demonstrated to significantly influence the implementation of strategy in the banks in Kenya.

The study also found strong correlation between management facilitating meaning making of changes and strategy implementation in the banks. This finding is aligned to the observation by Sonenshein & Dholakia (2012) that employees contribute to the achievement of new strategic direction by adapting to change facilitated by meaning-making process in the employees. Meaning making converts resistance into champions of change implementation, and this is only possible when they construct meaning of the change events. Managers support this meaning making process through effective communication. In addition, the respondents also rated the meaning making of changes as an important sub-construct of strategic direction construct. This is an indicator to the need for management to facilitate meaning making through effective communication focusing on the two broad categories of meaning making i.e. understanding, by explaining a change event as part of a large plan supported by management and secondly by constructing adverse events of change as having more benefits than downsides, and inspire positive emotions (Sonenshein & Dholakia, 2012).

Finally, the paper reveals the strong correlation between strategy implementation and the top team and in particular the CEO being too committed to the status quo, thus avoiding any perceived risky actions. This is a phenomenon that Hitt *et al.* (2013) attributes to firms that have performed well in the past or for long serving CEOs hindering the firm from reaching the vision that is part of its strategic direction. It would be of interest to study the correlation of this sub-construct in the banks with the length of service of the sitting CEO. The strong positive correlation (r = +0.320) would negate the assertion by Hitt *et al*. (2013) that such behaviors are not consistent with high performance organizations and may even lead to change in leadership at the CEO level.

However, CEOs length of service may have its positive aspects as observed by Mitchell, Shepherd, & Sharfman (2011) that erratic decisions on strategic direction are less likely from CEOs with metacognitive experiences (feelings or thoughts that relate relevant past experiences to current cognitive processes). The respondents also ranked management's commitment to status quo as most important (mean score of 3.96 implying generally in agreement). This could be attributed to the fact that most of the banks have had a long period of good performance in the past, that the institutions risk becoming too complacent, and therefore resistive to change and risk taking. Mitchell *et al.* (2011) attribute less erratic decisions on strategic direction to CEOs in less hostile environments and the banking sector environment over the last decade can be summed up largely less hostile. The study also revealed that there is a significant positive correlation between the sub-construct, the CEO and TMT being too committed to status quo and the past 5-year average return on assets of the bank. This observation is aligned to the assertion in the literature review that the tendency for the top management team and in particular the CEO to be too committed on the status quo as an aversion to risk taking is a phenomenon that is common to firms that have either performed well in the past or have long serving CEOs (Hitt *et al.*, 2013). A separate study could test the correlation between the sub-construct of commitment to status quo and the length of service of the CEO.

Determining strategic direction was significantly correlated to the experience level of the respondents while no correlation with level of academic attainment. This would be a pointer to the fact that the experience of the respondents and hence the less chances of making erratic decisions is more critical for the construct of strategic direction than the academic achievement. Employers should therefore invest more in providing hands-on experience in the implementation of strategy as opposed to focus on academic achievement.

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