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ORGANIZATIONAL LEADERSHIP AND PERFORMANCE OF COMMERCIAL BANKS IN NYERI COUNTY, KENYA

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ABSTRACT

Competent and knowledgeable leadership ensures business survival and also plays a key role in keeping the competitive edge of organizations. In the backdrop of the numerous dynamic shifts characterizing the banking sector environment in Kenya, it is imperative for commercial banks to come up with a clear leadership framework as change in the banking industry is often speedy and complex. The purpose of this study was to determine the effect of organizational leadership on performance of Commercial Banks in Nyeri County, Kenya. The study used census study approach which subjected all the 16 commercial banks in Nyeri County. The study specifically targeted Managers. Primary data was collected through questionnaires which was administered using the drop and pick method. Descriptive and inferential statistics was used to analyze data. The regression analysis indicated that a unit increase in leadership would increase performance by 0.598 units. In view of significance of organizational leadership at 5% level, organizational leadership significantly added up to performance (P=0.002<0.05). The findings of the study indicated that commercial bank leaders create a sense of urgency to reinforce the need for change. The findings of the study indicated that the commercial banks are led by a committed and greatly motivated class of leaders. The study also indicated that banks' leaders are competent and knowledgeable enough to drive change initiatives and that banks regularly conducts training and development programs to equip the work force to handle change initiatives and peer learning is encouraged in the organization as an important pillar to successful change introduction.

Keywords: *Organizational Leadership, Commercial Banks, Organizational Performance*

INTRODUCTION

As an integral piece of business objectives, the understanding of performance is very important for commercial banks which are considered as the major constituents of the financial institutions. Bhatti and Hussain (2010) observed that in the world over, the environment in which the commercial banks operate has seen numerous dynamic shifts especially on matters regulation and operating conditions. As such, the success of commercial banks strategic initiatives and ultimate superior performance is pegged on the ability to manage change in the operating environment (Tarawneh, 2006). According to Stevenson and St-Onge (2005), the performance of the commercial banks over the recent past has not been good. Among the key reasons cited for the continued decline in performance are changes in the regulatory environment, poor corporate governance and working capital management, stagnating economic growth, growth in non-performing loan portfolio and poor financial risk and change management.

World over, organisations, commercial banks not excluded operate in an environment that is constantly changing. These changes keep redefining the manner in which organizations operate and perform. As open systems, organisations function in a setting marked with many challenges, risks and uncertainties that call for a thoughtful management approach (Armenakis & Harris, 2002). Gill (2002) posit that change ideally entails the process of causing a function, practice, or thing to become different in some or all aspects compared to what it originally was. In an organisation, these changes could be in a specific department, such as a Production, Human resource, and Marketing or Finance department or could also be happening in the entire business entity.

Waweru and Kalani (2009) observe that the performance of Commercial banks` in Kenya has not been remarkable over the last decade. A chain of banking sector reforms have been introduced since 1990s with a view to improve performance, stability, productivity, financial access and efficiency. The sector players have however posted erratic performance notwithstanding these reforms. According to Onuonga (2014), between the financial years 2010-2016, Profits before Tax (PBT) growth of commercial banks on average terms has been less than 20% and represent a declining trend. Banks with Branches in Nyeri County that have reported losses include Family Bank, Sidian.

For the Fiscal year 2012/2013 for instance, the Profit before Tax (PBT) of the Kenyan commercial banks increased by 16.6 percent which was below the previous financial year 2011/2012's record of 20.60 percent. Still on that comparison, the PBT for fiscal year 2008/2009 for increased by 12.90 percent which represented a decline from the previous posting of 13.40 percent in 2007/2008 PBT. The performance trends in the sector are not impressive at all considering the many reforms done with a view to improve the performance of the banking sector which remains a critical pillar to the economy (Waweru & Kalani, 2009).

Statement of the Problem

The performance of the commercial banks over the recent past has not been good (Waweru & Kalani, 2009; Onuonga, 2014). The sector players have however posted erratic performance notwithstanding the chain of reforms introduced by stakeholders. Kombo (2015) reports that a significant proportion of bank customers (about 40%) are dissatisfied. The market share and customer outreach of the banks have also been diluted by competition from other players in the financial sector such as SACCOs, Mobile money options and Micro Finance Institutions. Therefore, the current study focused on the effect of change management strategies on performance of commercial banks in Nyeri County, Kenya.

Objective of the Study

To evaluate the effect of leadership on performance of Commercial Banks in Nyeri County, Kenya.

Research Question

Does leadership style have an effect on performance of Commercial Banks in Nyeri County, Kenya?

LITERATURE REVIEW

Theoretical Review

Kurt Lewin Three Step Change Model

The early proponent of the theory was Lewin (1947). Kurt Lewin theory or model is built on the premise of three steps to change. These according to Levasseur (2001) are unfreezing, moving and refreezing. Unfreezing entails reducing the setbacks to change and increasing the change effort opportunities. Stage two which is the moving stage involves the recognizing change need and the change in the workforce acceptance at the end of it all.

Figure 1: Kurt Lewin's three steps of change Model

Source: *Lewin (1947)*

The three-step model elucidates the significance of executing a change successfully by removing the current conditions then movement change, making norms absolute and changing behaviours. The theoretical framework was useful especially in the evaluation of the leadership and development objectives much so because of its emphasis on stakeholders involvement in the process of managing organisational change.

Empirical Review

Thomas (2014) undertook a study on change management and its effects on organizational Performance of Nigerian Telecoms Industries. The study covered Airtel Telecommunication Company in Nigeria and relied on 300 randomly selected staff of Airtel, Nigeria. The study used One-way Analysis of Variance (ANOVA) in testing the hypothesis. The results indicated that change management through leadership has a significant effect on performance. As such, the study recommended that the leadership of telecoms industries in Nigeria should be pro-active to changes in such a competitive environment so as to experience smooth change implementation. The study presents empirical gaps on the need to cover more change management variables such as organisational learning, stakeholder involvement and communication and feedback. Contextual gaps are further unveiled on the need to replicate the study locally.

Omari, Ateka and Nyaboga (2013) embarked on a study on the influence of strategic change management practices on organizational performance. The study concentrated on the operations of soft drink industries in western Kenya. The results of the study indicated that leadership and specifically executive commitment was a key drive to successful change introduction and implementation and ultimately on organisational performance. The study presents empirical gaps on the need to extend the analysis to cover more change management variables.

A study by Tsai (2011) dwelt on the relationship between organizational cultures, leadership behaviour and job satisfaction in the context of organisational change in Taiwan. A cross-sectional study approach was adopted where hospital nurses in Taiwan were targeted as the respondents. The study used a structured questionnaire to collect data from 300 participants. A total of 200 valid questionnaires were returned and applied in the analysis. The study utilised correlation analysis to determine the relationships between organizational cultures, leadership behaviour and job satisfaction in the context of change. Study results indicated that leadership behaviour was significantly and positively related to job satisfaction and ultimately employee performance. Methodological gaps are unveiled on the need to address organisational performance besides employee performance as influenced by change management. Contextual; gaps are also unveiled on the need to replicate the study locally.

METHODOLOGY

The study used a descriptive research design in order to effectively explain the effect of change management strategies on performance of commercial banks in Nyeri County, Kenya. The target population of the current study consisted of all the 16 commercial banks with operations in Nyeri County, Kenya. The targeted respondents was 128 in total and comprised of branch managers, credit managers, operations managers, accountants, auditors, marketing managers, customer relations managers and human resource managers. A census study approach was employed to subject all the 16 commercial banks with operations in Nyeri County to the study. The data collection involved both primary and secondary data collection methods. Primary data was sourced by use of questionnaires. Primary data was collected through a semi-structured questionnaire. The questionnaire was self-administered. The use of semi-structured questionnaire allowed uniformity of responses to questions. Questionnaires were dropped and picked after 7 days. Secondary data was sourced from the published financial statements of the targeted commercial banks. A test of construct validity, predictive validity and content validity was tested in this study. Predictive validity is the extent to which a score on a scale or test predicts scores on some criterion measure (Chen, 2015). To enhance content validity, the researcher consulted widely and carried out thorough literature review on the subject. The study utilised opinion from experts and supervisor in evaluating and refining validity status of the instrument. Pre testing was done by targeting one commercial bank from Muranga County which was outside the area covered by the current study. Questionnaires were distributed to 8 bank staff members to gauge whether the data given was the data sought. Expert Opinion as well as pre-testing are some of the operative methods suggested by Mugenda and Mugenda (2003) for testing validity of research instruments. The study assessed the internal consistency reliability status of the instrument. To fulfil this, the study used the Cronbach's Alpha Reliability test. According to Gliem and Gliem (2003), a reliability coefficient of greater than 0.70 is considered “acceptable" in social science research circumstances. The current study applied this scale to explain the reliability or otherwise of the research instrument.

To ensure that data collected met the underlying assumptions for the regression analysis, the study embraced key diagnostic tests. The regression model is a key analytical tool useful in testing the current hypothesis. Diagnostic tests included, test for auto correlation through the Durbin Watson test and the normality test through the Shapiro-Wilk test. SPSS generated Tolerance and Variance of Inflation Factors (VIF) statistics measured multicollinearity. The study used both descriptive and inferential statistics in the main analysis. Content analysis was used to analyse any qualitative data collected.

FINDINGS AND DISCUSSIONS

Effects of Leadership Style

The study sought to examine the leadership style effects on organizational performance. Several indicators of leadership and how they affected organizational performance were carefully identified by the researcher. Respondents were then requested to indicate their rating on each of these statements.

Table 1: Leadership Style

Statement	Mean	Std. Dev
Organisational leaders create a sense of urgency to reinforce the need for change.	3.711	0.232
The organisation is led by a committed and greatly motivated class of leaders.	4.132	0.953
The organisational leaders are competent and knowledgeable enough to drive change initiatives.	3.902	1.023
The organisational leaders are creative and innovative in ensuring successful change introduction.	3.419	0.723
The management team selects the right people to form the guiding coalition.	3.872	1.234
The management team promotes and develops the right people to promote change.	3.611	1.123

The descriptive statistic considered were mean and standard deviation. Mean was used to establish the average value of the data; standard deviation gave the dispersion in the data. High mean presented majority of the respondents agreeing with the statement presented to them while low standard deviation translates to low spread of their response. From the responses; respondents agreed that organizational leaders create a sense of urgency to reinforce the need for change with mean of 3.711 and standard deviation of 0.232, majority of the respondents strongly agreed that the organisation is led by a committed and greatly motivated class of leaders with mean of 4.132 and standard deviation of 0.953. Majority of the respondents strongly agreed that the organisational leaders were competent and knowledgeable enough to drive change initiatives with mean of 3.902 and standard deviation of 1.023, majority of the respondents the respondents agreed that the organisational leaders are creative and innovative in ensuring successful change introduction with mean of 3.419 and standard deviation of 0.723. Majority of respondents strongly agreed that the management team selects the right people to form the guiding coalition mean of 3.872 and standard deviation of 1.234 and majority of the respondents strongly agreed that the management team promoted and developed the right people to promote change with mean of 3.611 and standard deviation of 1.123. The study showed a lower standard deviation which indicated lower degree on response spread of the majority of respondents.

The findings agreed with Thomas (2014) who undertook a study on change management and its effects on organizational Performance of Nigerian Telecoms Industries. The study covered Airtel Telecommunication Company in Nigeria and relied on 300 randomly selected staff of Airtel, Nigeria. The study used One-way Analysis of Variance (ANOVA) in testing the hypothesis. The results indicated that change management through leadership has a significant effect on performance.

Commercial Banks Performance

Table 2: Commercial Banks Performance

Performance	Mean	Std. Dev
The bank's market share has increased over the last four years	4.114	0.173
We have experienced increased customer outreach in the last four years	4.715	0.114
Customer feedback reports indicates that our customers are satisfied by our services	4.231	0.233

Source: Research Data, (2018)

The descriptive statistic considered were mean and standard deviation. Mean was used to establish the average value of the data, standard deviation gave the dispersion in the data. High mean presents majority of the respondents agreeing with the statement presented to them while low standard deviation translates to low spread of their response. From the findings, respondents felt that to a great extent; the bank's market share has increased over the last four years with mean of 4.114 and standard deviation of 0.173. Majority of the respondents strongly agreed that they have experienced increased customer outreach in the last four years with mean of 4.715 and standard deviation of 0.114. Majority of respondents strongly agreed that customer feedback reports indicated that their customers were satisfied by their services with mean of 4.231 and standard deviation of 0.233.

Inferential Analysis

The researcher carried out regression analysis to establish relationship between the variables of the study. The findings were indicated in subsequent sections.

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.8445	.713	.701	10.51960

Source: Research Data, (2018)

The model summary above indicated a coefficient of correlation R of 0.8445 signifying presence of strong positive correlation between the variables of the study. The coefficient of determination R square was 0.713 showing that 71.3% change in organizational performance was explained by organizational leadership

Table 4: ANOVA Table

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.12	4	12.53	55.15	.000
Residual	20.13	87	0.231		
Total	71.25	91			

Source: Research Data, (2018)

The ANOVA findings of the processed data at 5% level of significance indicate an F calculated value of 55.15 while F critical Read from F Table was 2.48. This showed that the overall regression model was significant in predicting relationship between the study variables as F calculated was greater than F critical. The p value 0.000 was also less than 0.05 and therefore statistically significant association of the study variables.

Table 5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.482	2.262		.213	.161
	Leadership Style	.598	.178	.292	1.441	.002

Source: Research Data, (2018)

From the findings, the established equation becomes:

$Y = 0.482 + 0.598 X_1 + \varepsilon$

The above model indicated that when organizational leadership was held constant organizational performance would be at 0.482 units. A unit increase in leadership would increase performance by 0.598 units. In view of significance of each individual independent variable at 5% level, leadership significantly added up to performance $p=0.002<0.05$. The study agreed with Zhou, Hu, and Shi (2015) study which found that organizational leadership led to higher firm performance of Chinese listed companies and found a statistically significant positive associations between organizational leadership and firm performance.

Summary of the Findings

From the findings, respondents agreed that organizational leaders create a sense of urgency to reinforce the need for change. Majority of the respondents strongly agreed that the organisation is led by a committed and greatly motivated class of leaders. Majority of the respondents strongly agreed that the organisational leaders are competent and knowledgeable enough to drive change initiatives. Majority of the respondents agreed that the organisational leaders are creative and innovative in ensuring successful change introduction. Majority of respondents strongly agreed that the management team selects the right people to form the guiding and majority of the respondents strongly agreed that the management team promotes and develops the right people to promote change.

Conclusions

To improve performance, changes must be made to the organizations' processes and system structures or job roles. However, managers should demonstrate strong leadership throughout the organization by spreading leadership and decision-making responsibilities in order to inspire and motivate employees to play an active role in implementing change thus improving the commercial banks' performance.

Recommendations of the Study

The study recommends that managers should anticipate change especially in the banking industry where changes occur every seconds and thus proactive measures in approach should be encouraged in managing change.

Suggestions for Further Studies

The study suggests a study to be carried out to establish the effects of organizational leadership on performance of other sectors for example public sector, private sector and telecommunication sector.

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