STRATEGIC DIRECTION DETERMINATION AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

Kisiangani Benson Walela, Dr. Clive Mukanzi, PhD & Dr. Julius Miroga, PhD

The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 10, Iss.4, pp 1 – 7, January 1, 2024. www.strategicjournals.com, ©Strategic Journals

STRATEGIC DIRECTION DETERMINATION AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

[1] Kisiangani, B. W., [2] Mukanzi, C., & [3] Miroga, J.

[1] Student, Jomo Kenyatta University of Agriculture & Technology, Kenya
[2,3] Lecturer, Jomo Kenyatta University of Agriculture & Technology, Kenya

Accepted: December 15, 2023

DOI: http://dx.doi.org/10.61426/sjbcm.v11i1.2834

ABSTRACT

Overview: *Determining strategic direction for an organization rests squarely on the leadership at the strategic level and it involves developing a long-term vision for the organization. It entails establishing a strategic plan, developing strategic goals for the organization and articulating an organization's vision and mission, hence this role is important and cannot be left without proper leadership. It is the responsibility of the Chief Executive Officer (CEO) working at close range with the Top Management Teams (TMTs) in providing general guidelines as to where the organization intents to go and the appropriate steps in place to enable the organization reach its goals. Tracy O'Rourke, CEO of Varian Associates agreed with this view and stated that; if you are going to do well in the long run, you need to have some ability of yourself or in combination with others to come up with a vision and follow it with believable and implementation action plans. Strategic leaders need to develop a vision, mission and values to guide an organization in her future. Organizational mission to help that organization pose superior performance must support strong values illustrated by a vision. Therefore, strategic leaders must inspire their workforce to higher levels of achievements by demonstrating to them how their work and responsibilities contribute to the future direction of the organization.*

Purpose: *The study sought to investigate the influence of strategic direction determination on the performance of commercial banks in Kenya. The study was enhanced by path-goal theory which asserts that role of the leader is to clarify goals through strategic vision, mission and intent to the subordinates. He also holds a position of ensuring that these goals are well articulated and understood by the subordinates for implementation.*

Methodology: *The study targeted 577 strategic leaders in commercial Banks in Kenya. The main respondents included; The Chief Executives, Executive Directors and Senior Managers. 277 questionnaires were administered out of which 179 were returned. This represented a percentage rate of 75% response rate. A descriptive survey design was adopted in the study to show the relationship between the study variables. The design was adopted because it's concerned with a description of phenomena and characteristics linked to the study giving information in regard to its natural occurrences and behavior. Self-administered questionnaires* *were used in collection of data from the respondents. Collected data was analyzed using SPSS. Both descriptive statistics and inferential statistics were used in analyzing the data. The study clarified the relationship between strategic direction and performance of commercial banks in Kenya.*

Findings: *Statistics revealed that ANOVA statistic was F (1, 177) = 28.275, p <0.00. This showed that the regression model was statistically significant in predicting the dependent variable. Therefore, the elements of strategic direction establishment explained variations in performance of commercial banks in Kenya. The* $R^2 = 0.138$ *indicates that approximately 13.8 per cent of the competitiveness is explained by the strategic direction establishment practices. The beta coefficients: constant,* $\beta_0 = -0.022$ *(t = -2.504, p< 0.05); strategic direction establishment,* $\beta_1 = 0.371$ *(t = 2.55, p< 0.05) and p-values < 0.05 indicated that all the coefficients were statistically significant. This regression model has two implications; first, holding the strategic direction establishment practices at zero, the rise in competitiveness of the commercial banks would be -0.022 units; second, a unit change in strategic direction establishment practices would lead to a 0.371 change in competitiveness.*

Recommendation: *The study established that strategic direction establishment practices have a significant positive effect on performance of commercial banks in Kenya. The study therefore recommends that the top management teams for commercial banks in Kenya should enhance practices for strategic direction determination. Strategic leaders are challenged to establish vision; mission and values for a strategic direction that will help their organization attain competitive advantage in the future. The CEOs and the top management team should practice quick decision making to mitigate or use opportunities affecting the industry at any time while also thinking of possible solutions to unexpected challenges.*

Key words: *Strategic direction, Strategic Leadership, Performance, Commercial Banks, Kenya*

CITATION: Kisiangani, B. W., Mukanzi, C., & Miroga, J. (2023). Strategic direction determination and performance of commercial banks in Kenya. *The Strategic Journal of Business & Change Management,* 11 (1), 1 – 7. http://dx.doi.org/10.61426/sjbcm.v11i1.2834

INTRODUCTION

Determining strategic direction for an organization rests squarely on the strategic leadership (Ng'ang'a, 2018). This is a leadership positioned at the apex of the organization. Strategic leadership has a roles that cannot be delegated. Among these roles is developing a long-term vision for the organization (Kitonga, 2017). This role is crucial and cannot be left without proper strategic leadership (Mutia, 2016). They need to define ways that should influence subordinates make voluntary decisions that are aligned to organizational vision (Northouse, 2018). Empirical studies identify roles for strategic leadership to include; strategic direction determination, exploring and maintaining unique core competencies, human capital development, sustaining effective organizational culture, work ethical practices and establishing balanced strategic controls (Hagen, Hassan & Amin, 1998; Boal & Hooijberg, 2001; Ireland & Hiit, 2005; Jooste & Fourie, 2010; Serfontein, 2010). These practices are described as key drivers of performance through strategic decision making, effective organizational culture and management of organizational processes (Epstein, 2018). The study was anchored on the path-goal theory which asserts that role of the leader is to clarify goals through strategic vision, mission and intent to the subordinates and the path leading to the attainment of such goals.

Organizations do not exist in isolation. They form part of the broader global environment that is shaped by rapid and uncertain changes (Wang, Albert, & Sun, 2020). Therefore, strategic leaders in organizations play a critical role in determining and ensuring that their organizations fit into a fast changing environment for survival (Seyadi, & Elali, 2021). The extraordinary changes in the 1980s and 1990s resulted in the rapid development of an ultra-competitive global economy that has become a substantial force shaping strong relationship among nations (Maile & Braddon, 2017). As a result, there is an increased proportion of inter-nation global trade ranging from 7 per cent to 21 per cent since the end of World War II. This has stimulated a new competitive landscape where change is constant and unpredictable. Such changes challenge strategic leaders to fasten the process of decision making through effective strategy development and implementation (Meng, 2015).

Mutole, (2019) noted that empirical work on strategic leadership practices and organizational performance has been done in the USA, Europe and Japan. The findings shows that strategic leadership does not require individual managers to take charge of managing an organization rather the organization can effectively lead themselves through their culture and/or structure (Adoli, & Kilika, 2020).

Many studies have supported a positive significance of determining strategic direction and organizational performance (Bryson, 2018; Toole, 2010; K'Obonyo, 2012; Lear, 2012; Makinde, 2012; Kitonga, 2016). It is a short statement stating where an organization will be positioned in the future. It is commonly referred to as strategic intent and represents the vision of the top management in the future. The main concept behind strategic direction is to sustain competitive advantage through superior performance. An organization needs to develop a vision, mission and values for strategic direction because without strong values illustrated by a vision, supported by the mission, the ability of the organization pose competitive performance is constrained (Bryson, 2018). This is because strategic leaders must inspire their workforce to higher levels of achievements by demonstrating how work and responsibility contribute to the future direction of the organization (Kotter, 2017).

LITERATURE REVIEW

The directive kind of leadership gives clarity of expectations and specifies guidance towards the accomplishment of such expectations in line with standards of performance and organizational rules. Effective strategic leadership must meet the needs of subordinates and grow their commitment through setting goals and determining the path to be taken for goal attainment (Amanchukwu, Stanley, & Ololube, 2015). They should also help subordinates get around, get through and overcome every obstacle as they strive attaining the vision of the organization (Northhouse, 2018).

Path-goal theory supports an argument that organizational performances is greatly affected by strategic leaders. It purport that these leaders have the responsibility of determining strategic direction and initiating clear path for competitiveness (Ginter, Duncan, & Swayne, 2018). CEOs should therefore work at close range with TMTs in order to give guidelines on where the organization intents to go and establish appropriate pathway onto organizational goals (Christensen-Salem, Kinicki, Perrmann-Graham, & Walumbwa, 2023). Therefore, strategic leaders are challenged to establish vision, mission and values for a strategic direction, which in the long-run will enhance organizational performance and competitiveness (Bryson, 2018). According to Abdow (2019), determining strategic direction is a critical strategic leadership practice that entails developing a long-term vision for an organization normally between 5 to 10 years. It is a short statement stating where an organization wants to be in the future.

Literature identifies measurements for strategic direction to include vision, mission, and strategic intent. A vision is a clear picture of an organization in the future. It links an organization’s future intentions with the current practices. A vision must contain information that is realistic, attractive and credible for an organization in the future (Nanus, 1995). An effective vision is characterized by seven attributes of clarity, stability, abstractness, challenge, brevity, future-oriented and desirability or ability to inspire interaction for a positive impact on the overall performance of an organization (Nanus, 1995). Establishing and communicating a vision is an important aspect of the top leadership because a well-written vision will only account for 10 per cent of the organizational performance while the rest will depend on how well its communicated and implemented in an organization (Bryson, 2018). Strategic leadership in an organization should therefore communicate their visions in such a way that organizational members get and grip it at heart. This will motivate then to be involved in carrying out the vision to promote changes and broaden the support of the vision (Senge, 2017). By this, leaders need to: direct their attention, communicate personally, demonstrate trustworthiness, display respect and take risks.

METHODOLOGY

A positivist research philosophy was adopted in this study. The philosophy emerged as a philosophical paradigm in the 19th Century through the work of Auguste Comte (1975) who rejected a metaphysics notion that only scientific knowledge can reveal the truth of a phenomenon. The philosophy assumes a more controlled way of research that identifies research topic and appropriate methodology that enables the research to apply statistical techniques in testing research hypotheses through analysis of collected data by quantitative research techniques. The positivist point of view belief that reality is stable and can be observed as an objective viewpoint. A descriptive survey design was used in the study to measure the variable under consideration. The study population consisted of 39 registered and operational commercial banks in Kenya as at 2017. The target population comprised of the strategic leaders from these respective banks. These were chosen because they have strategic roles that cannot be delegated. 577 strategic leaders were drawn from the commercial banks and a sample size of 277 respondents was selected. The researcher used a stratified sampling technique in determining the sample size for the study. The study utilized primary data, which was collected through questionnaires that were administered to the respondents who included the Chief Executive Officers, Executive Directors and the senior managers from respective banks.

Response Rate

The response rate was at 92.30%. The study population was 39 registered banks out of which 36 banks took part in the study. The number of the participating banks indicated that the study met the minimum criteria of 30 per cent that is allowed for regression analysis. Regarding the unit of observation, a total of 179 questionnaires were collected out of a possible total of 277 representing a 75 per cent response rate which is indicative of a good response rate.

Descriptive Statistics

The variable was operationalized by nine items and the interpretation was based on the use of descriptive analytical tools as described.

Table 1: Descriptive Statistics

Variable		N	SD	D	A	SA	Tot	Mean	SD	SK
Clear, compelling and realistic organization map	F	0	8	56	61	54	179	3.899	0.887	-0.191
	%	0	4.5	31.3	34.1	30.2	100.0			
Formal process for strategic planning in the organization	F	2	25	52	53	47	179	3.659	1.050	-0.252
	%	1.1	14.0	29.1	29.6	26.3	100.0			
Presence of an elaborate organizational planning systems	F	15	10	60	51	43	179	3.541	1.162	-0.559
	%	8.4	5.6	33.5	28.5	24.0	100.0			
Planning systems decisions are inclusive, formal and future-oriented	F	1	20	60	66	32	179	3.603	0.927	-0.157
	%	0.6	11.2	33.5	36.9	17.9	100.0			
Mission and vision statements are reviewed and revised	F	2	15	48	59	55	179	3.838	0.995	-0.464
	%	1.1	8.4	26.8	33.0	30.7	100.0			
Mission and vision define the firm and is well documented	F	11	3	55	38	72	179	3.877	1.150	-0.811
	%	6.1	1.7	30.7	21.2	40.2	100.0			
Futuristic paths are clearly defined and support vision and mission	F	2	5	43	69	60	179	4.006	0.890	-0.640
	%	1.1	2.8	24.0	38.5	33.5	100.0			
Programs and activities are consistent with vision and mission	F	3	13	25	73	65	179	4.028	0.974	-0.979
	%	1.7	7.3	14.0	40.8	36.3	100.0			
Decisions and plans are aligned to organizational vision and mission	F	2	18	32	74	53	179	3.883	0.985	-0.691
	%	1.1	10.1	17.9	41.3	29.6	100.0			

The statistics related to the indicators of the strategic direction establishment practices. All the indicators related to the way strategic leadership creates a tangible engagement with their followers on the matter regarding the firm's future directions. As affirmed by the respondents, the top management team of these organizations provide a compelling organizational futuristic map that can be followed by the staff (Mean = 3.899, SD = 0.887). The indications from the respondents are that formal strategic planning processes are undertaken in these organizations (Mean = 3.659, SD = 1.050). On the other hand, respondents showed that mission statement is necessary for institution's strategic planning process.

Concerning the systems for planning, the respondents affirmed that the strategic leadership has an elaborate organizational planning system (Mean = 3.542, SD = 1.162). As indicated by the respondents, the organizational strategic leadership involves employees in decision making process in regard to planning for the firm's future directions (Mean = 3.603, SD = 0.927). Regarding the mission and vision statements, the respondents affirmed that the leadership provides opportunities for revisiting and revising these statements (Mean = 3.838, SD = 0.995)

Mission and vision statements for these organizations are well defined and documented as shown by the mean statistics of 3.877 and a standard deviation of 1.150. The respondents also avowed that the firm’s futuristic paths are defined and supported by the mission and vision statements (Mean = 4.006, SD = 0.890). Further, the respondents affirm that programs and activities implemented by leadership in these organizations are drawn from the organizational mission (Mean = 4.028, SD = 0.974). Lastly, all the decisions and plans are aligned towards organizational mission (Mean = 3.883, SD = 0.985).

FINDINGS

Strategic direction establishment has no significant effect on performance of commercial banks in Kenya.

Table 2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.371[a]	0.138	.133	.02036660

a. Predictors: (Constant), Strategic Direction establishment

Source: Research Data (2020)

The R2 = 0.138 indicates that approximately 13.8 per cent of the competitiveness is explained by the strategic direction establishment practices.

Table 3: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.012	1	.012	28.275	.000[b]
	Residual	.073	177	.000		
	Total	.085	178			

a. Dependent Variable: Competitiveness

b. Predictors: (Constant), Strategic Direction establishment

Source: Research Data (2020)

The statistics on table reveals that ANOVA statistic was F (1, 177) = 28.275, $p <0.00$. This showed that the regression model was statistically significant in predicting the dependent variable. Therefore, the elements of strategic direction establishment explain the variations in performance of commercial banks in Kenya.

Table 4: Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.022	.009		-2.504	.013
	Strategic Direction establishment	.013	.002	.371	5.317	.000

a. Dependent Variable: Competitiveness

Source: Research Data (2020)

The beta coefficients: constant, β_0 = -0.022 (t = -2.504, $p< 0.05$); strategic direction establishment, β_1 = 0.371 (t = 2.55, $p< 0.05$) and p-values < 0.05 indicates that all the coefficients were statistically significant. This regression model has two implications; first, holding the strategic direction establishment practices at zero, the rise in competitiveness of the commercial banks would be -0.022 units; second, a unit change in strategic direction establishment practices would lead to a 0.371 change in competitiveness. The results show that strategic direction establishment practices have a significant effect on firm performance in that a positive unit change in the strategic direction establishment practices of the commercial banks in Kenya has 0.371 -unit increases in competitiveness. Based on this finding, the study findings rejected the null hypothesis that strategic direction establishment practices have no significant effect on the financial performance of commercial banks in Kenya and concluded that strategic direction establishment practices have a statistically significant positive effect on the performance of commercial banks in Kenya.

CONCLUSSION

Strategic direction Determination directly improves organizational performance. This can be achieved through effective communication and alignment of firm's future direction to employees' roles. Organizational vision and mission statements should guide subordinate behavior and decision-making process. It should also motivate organizational members toward a common course. In support for path goal theory, strategic leadership should commit towards communicating strategic priorities and principles. This will enable organizational employees to understand, interpret and integrate such principles into constructive organizational routines. Commitment by the strategic leadership to the organizational vision and mission will have a positive impact in the way the organization serve customers, generate revenues and use their resources in non-wasteful ways.

This study established that strategic direction establishment practices have a significant positive effect on performance of commercial banks in Kenya. It was established that strategic direction establishment have a positive significant effect on the performance of commercial banks in Kenya. Thus, it was perceived that strategic direction establishment practices aids creation of a path for what the bank wants to become.

REFERENCES

Ng'ang'a, L. W. (2018). *The perceived influence of strategic leadership on organizational performance of tourism government agencies in Kenya* (Doctoral dissertation, JKUAT-COHRED).

Kitonga, D. M. (2017). *Strategic leadership practices and organizational performance in not-for-profit organizations in Nairobi County in Kenya* (Doctoral dissertation, COHRED, JKUAT).

Wang, W., Albert, L., & Sun, Q. (2020). Employee isolation and telecommuter organizational commitment. *Employee Relations: The International Journal*, *42*(3), 609-625.

Seyadi, A. E., & Elali, W. (2021). The Impact of strategic Agility on the SMEs competitive capabilities in the Kingdom of Bahrain. *International Journal of Business Ethics and Governance*, 31-53.

Mutole, J. N. (2019). *Influence of strategic leadership practices on the performance of Non-Governmental organizations listed in the environmental campaign by United Nations Environmental Programme (UNEP) in Kenya* (Doctoral dissertation, JKUAT-COHRED).

Adoli, H. L., & Kilika, J. M. (2020). Conceptualizing the role of leadership strategy in the context of strategic management process: A review of literature. *Journal of Economics and Business*, *3*(4).

Kotter, J. P. (2017). What leaders really do. In *Leadership perspectives* (pp. 7-15). Routledge.

Amanchukwu, R. N., Stanley, G. J., & Ololube, N. P. (2015). A review of leadership theories, principles and styles and their relevance to educational management. *Management*, *5*(1), 6-14.

Ginter, P. M., Duncan, W. J., & Swayne, L. E. (2018). *The strategic management of health care organizations*. John Wiley & Sons.

Christensen-Salem, A., Kinicki, A., Perrmann-Graham, J., & Walumbwa, F. O. (2023). CEO performance management behaviors' influence on TMT flourishing, job attitudes, and firm performance. *human relations*, *76*(12), 1966-1989.

Abdow, A. I. (2019). *Influence of strategic leadership on organizational change in the petroleum industry in Kenya* (Doctoral dissertation, JKUAT-COHRED).

Nanus, B. (1995). *Visionary leadership* (Vol. 196). John Wiley & Sons.

Senge, P. M. (2017). The leaders new work: Building learning organizations. In *Leadership perspectives* (pp. 51-67). Routledge.