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ORGANIZATIONAL LEADERSHIP IN CORPORATE CHANGE AND ITS EFFECT ON PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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ABSTRACT

Commercial banks in Kenya have been embracing corporate changes as a way of enhancing their continued performance in the over-dynamic operating environment. The success of this corporate change has however had mixed outcomes as some banks are yet to gain significant performance even after the changes. Moreover, the place of employees in the corporate changes has not been adequately addressed. It is against this background that this study sought to assess the influence of organizational leadership as an aspect of corporate change on organizational performance of commercial banks in Kenya. The study was anchored on contingency theory of leadership, and utilized a descriptive cross-sectional research design. The target population was 29,600 employees drawn from the 39 licensed commercial banks in Kenya. A sample of 394 respondents estimated using Yamane's sampling formula and identified using stratified random sampling technique was surveyed. A questionnaire was used to collect primary data which was analysed through SPSS. The findings revealed that organizational change as an aspect of corporate change had a significant impact on the performance of commercial banks in Kenya ($\beta = 0.613$; $P= 0.000<0.05$). The study concluded that organizational leadership exemplified during corporate change was integral in determining the success of the change towards enhancing banks' performance. It is recommended that the banking managers particularly the tope leadership should provide close leadership during corporate change where they engage the employees, lead by example and show strategic direction for the changes to be effective.

Keywords: Corporate Change, Organizational Leadership, Organizational Performance, Commercial Banks.

1.0 INTRODUCTION

1.1 Background of the Study

As the business world is becoming dynamic and competition surging every day in every other sector, corporate change is becoming a fundamental for every organization that seeks to sustain its business. As defined by Peng, Li, Wang, and Lin (2021), corporate change is the deliberate efforts taken to make adjustments to a company's overall strategy, structure, culture, processes, or systems in response to internal or external pressures or opportunities in the operating environment. The change is driven by the need to adapt to evolving market conditions, competitive dynamics, technological advancements, regulatory changes, or shifts in customer preferences, through which the organization strengthens its position in the market (Men, Yue, & Liu, 2020). There are several components of corporate change that determine its success in enhancing organizational success as described by Chen and Sriphon (2021). These components include organizational communication, organizational structure, organizational culture and organizational leadership. This paper focuses on organizational leadership, which is an integral enabler of corporate change and its effectiveness in promoting organizational performance.

According to Yue et al. (2019), organizational leadership is the process of providing guidance and influence to draw the organization to a given strategic direction for continued performance. Effective organizational leadership is not limited to top-level executives. Leadership can be demonstrated at all levels of an organization, from frontline supervisors to middle managers and beyond. It's about taking initiative, influencing others positively, and contributing to the overall success of the organization. Organizations could integrate corporate change that encompass on changes in leadership (Hanelt et al., 2021). This could take several approaches which include adopting a leadership-by example approach, having performance-oriented leadership, enhancing employee engagement and adopting people-oriented leadership approaches.

Leading by example entails showing the strategic direction where leaders provide a clear vision for the organization and set strategic goals. They articulate the mission and values, creating a sense of purpose and direction for the entire team. Such leadership ought to be built on ethical and moral standards, where leaders set the tone for ethical behavior within the organization (Reinholz & Andrews, 2020). They must model integrity, honesty, and a commitment to ethical principles. People oriented leadership entails focusing on styles and approach that empower and develop the team. Effective leaders empower their team members by providing them with the autonomy and authority to make decisions within their areas of responsibility (Hanelt et al., 2021). They also know how to delegate tasks appropriately. Leaders are responsible for building and developing a high-performing team. This includes recruiting and hiring, providing training and development opportunities, and fostering a culture of continuous learning.

Kenya’s banking industry plays an instrumental role in promoting the country’s economic growth and development. The sectors’ role is driven by the continued performance of the banks, which control over 90% of the banking industry in the country. The licensing and oversight mandate of the banking industry in Kenya is bestowed on the Central Bank of Kenya (CBK) which reviews the guidelines, provides licenses and ensures compliance in the sector. As of December 2023, there were 39 licensed commercial banks in Kenya, operating retail banking and other banking services. These banks are characterized by Tiers based on their market share, whereby the banks controlling more than 5% of the market share are characterized as tier one (large peer group) banks, those with a market share of between 1% and 5% are characterized as medium peer group banks (tier two), and those with less than 1%

of the market share are categorized under small peer group (tier three banks) (CBK, 2021). As of December 2023, 9 tier one banks controlled a market share of 74.76%, 8 tier two commercial banks had 16.4% market share and 22 tier three commercial banks had 8.82% market share. This shows that the growth in the banking sector has only been tied to the large banks with the medium and small banks shrinking over time, an indication that there is need for research to address the concerns and issues facing the commercial banks. To counter the increasing competition in the sector, the commercial banks have been embracing key corporate changes including mergers and acquisitions, rebranding and redesign of business strategy, and expansion to foreign markets.

1.2 Statement of the Problem

Despite the crucial role played by the banking sector in Kenya's economy, majority of the banks have remained uncompetitive for decades and others have been closing down or downsizing to regain business and continue operating (Kenya Bankers Association, 2022). Despite the efforts by most of these banks to change their business models for them to continue performing, these banks have still remained stagnant and their revenues have merely grown for years. Notably, the continued focus in regard to performance of the banking sector especially the larger ones has mainly been on financial health of the banks, with other aspects of performance that touch on other stakeholders apart from the shareholders not highly focused on. This raises the question on whether corporate change has been effective in enhancing an holistic performance approach of the banks, whereby all the stakeholders are satisfied. One of the integral aspects of corporate change as portrayed by previous empirical evidence is organizational leadership (Bore, Chepkilot & Tanui, 2019; Neill, Men, & Yue, 2020; Bagga, Gera, & Haque, 2023). While studies show that leadership is instrumental during corporate change to streamline the effectiveness of the change towards promoting organizational performance, this has not been adequately underpinned in a local context particularly among the commercial banks in Kenya. This, therefore, motivated this study to examine the effect of organizational leadership as an aspect of corporate change in enhancing performance of commercial banks in Kenya.

1.3 Research Hypotheses

H_O: There is no significant effect of organizational leadership on organizational performance of the Commercial banks in Kenya.

H_A: Organizational leadership has a significant effect on organizational performance of the Commercial banks in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Background

The paper was anchored on the contingency theory of leadership by Woodward (1958-65). The theory is an organizational management theory that has extensively focused on leadership in an organization and how managers can be global leaders with leadership capabilities in different business areas. The theory attempts to contemplate that the methods of leadership and tactics used to provide leadership by a certain leader depends on the contextual situation in which the leader experiences (McAdam, Miller, & McSorley, 2019). The theory states that leadership traits and methods used in one sector or organization cannot necessarily fit to be used in another sector or organization or a time period. In the context of this study, organizational leaders should focus on the contingency factors of corporate change before making critical decisions in their organizations. To strengthen the effectiveness of corporate change towards enhancing organizational performance particularly in the commercial banks, there is need for the leaders to engage the employees, lead by example and show the appropriate strategic direction.

2.2 Review of Empirical Literature

Empirical studies portray organizational leadership as an instrumental aspect of corporate change that not only drives the success of corporate change but also strengthens organization performance (Chebbi et al., 2020). A study by Mukundi (2021) revealed that the managerial competency of an organizational leadership was determined by the skills and capabilities within the employees of the organizations and therefore defining operational competencies of an organization was best done by establishing the competencies of the employees. A study by Mitra et al. (2016) on the effect of leadership on organizational performance revealed that transformational leadership as a style of leadership had a strong impact on organizational performance. Similarly, Sahin et al. (2015) found out that leadership had a medium effect on the organizational performance. Sahin et al. (2015) further revealed that the approach used in a study significantly moderated relationship between leadership and organizational performance.

Ibrahim and Daniel (2019) while assessing the impact of leadership on organisational performance revealed that leadership style had a direct influence on the performance of the company. According to Ibrahim and Daniel (2019), participatory leadership and delegation of duties enhances the employee performance and attainment of corporate goals and objectives. In Kenya, Kuria et al. (2016) established that organizational leadership had a strong influence on organizational performance. According to Kuria et al. (2016), the leader has the role to enhance the relationship between the leadership and the employees and if this is not enhanced, the employee commitment declines thus affected the overall organizational performance.

2.3 Conceptual Framework

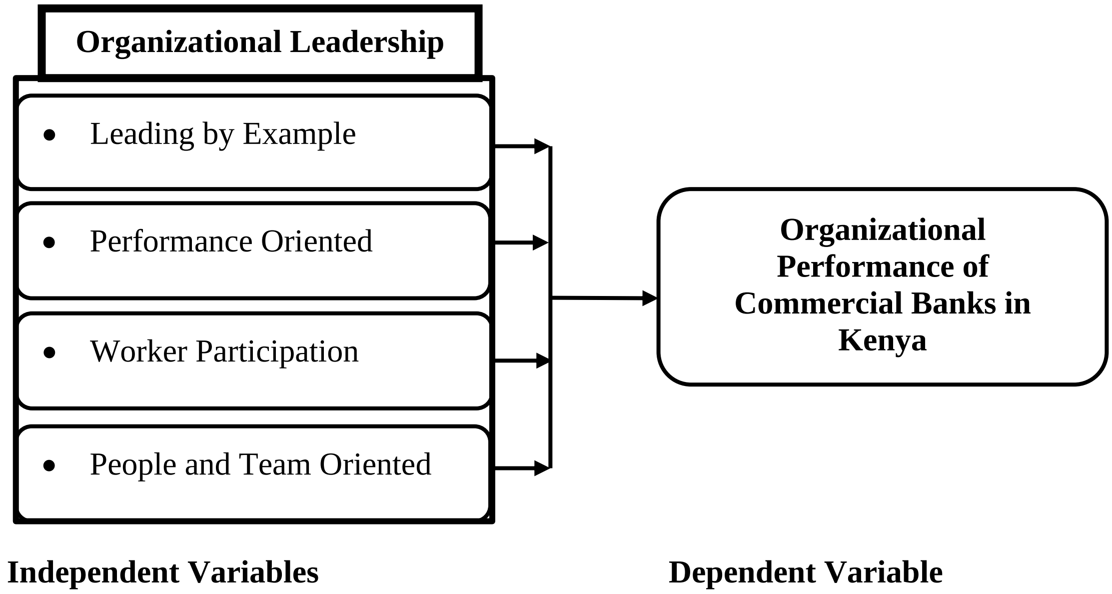

Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

A descriptive cross-sectional survey design was used to describe and establish relationship between organizational leadership and performance of commercial banks in Kenya. This design was deemed appropriate as it enabled intensive collection and analysis of data from the sampled respondents. The target population for this study was the commercial banks in Kenya. According to CBK (2023), there are 39 licensed commercial banks in Kenya. The commercial banks were the unit of analysis while the unit of observation were the employees in the licensed commercial banks. According to the Kenya Bankers Association (2022), the total workforce in the commercial banks in Kenya is 29,600. Out of these, 9% are in the top management cadre, 27% are in the middle level while 64% are the bottom level employees. All the 39 commercial banks in Kenya were included in the study thus ensuring inclusivity and effective representation of the banking sector in the country. Yamane's (1967) formula was used to establish the appropriate sample size for the study. The formula is as shown:

$$n = \frac{N}{1+N*e^2}$$

Where:

n is the sample size

N is the target population (29,600)

e is the error margin (0.05)

$$n = \frac{29600}{1+29600*0.05^2}$$

n = 394

The study used stratified random sampling to pick the 394 respondents in the 39 commercial banks in Kenya. The employees' levels of management (top level, middle level, and bottom level employees) were the strata.

A questionnaire was used to collect primary data for the study. The questionnaire contained open-ended and close-ended questions. Close-ended questions were used to collect essential information from key role personnel within the shortest time possible. Besides that, open-ended questions were used to collect descriptive data. A five-point Likert scale was used to collect descriptive data. The obtained data was analysed using inferential and descriptive statistics through SPSS.

4.0 RESEARCH FINDINGS AND DISCUSSIONS

4.1 Response Rate

Out of the 394 issued questionnaires, 321 were dully filled and handed over back for analysis. This represented a response rate of 81.47%. According to Saunders (2011), a response rate of between 60% and 80% is an adequate representation of the sampled population. This implied that the response rate obtained in this study was adequate for analysis.

4.2 Descriptive Statistics on Organizational Leadership

The study examined the influence of organizational leadership on the performance of commercial banks in Kenya. Organizational leadership was assessed through the ability of leaders to lead by example, performance oriented leadership, worker participation and people and team oriented leadership. The respondents were asked to indicate their level of agreement on key statements drawn from these aspects. Leadership being the styles and approaches that are used to dispense duties, can be changed to accommodate new ways of doing things or accommodate new strategies which in turn streamline the operations of the firm thus strengthening performance (Ogohi, 2019). The findings portray that organizational leadership has not been effectively embraced and relied upon when it comes to making the changes in the way the banks are led. According to El-Dirani et al. (2019), having a stagnant leadership could derail organizational performance by slowing-down innovation and minimizing the overall commitment of the team towards the change.

Table 1: Descriptive Statistics on Organizational Leadership

Statements	Mean	Std. Dev.
The leaders in our bank set example by doing what they expect employees to do	2.41	1.47
The supervisors in the bank are committed towards the needs of the employees	2.31	1.46
The supervisors in our bank take part in daily routines of the bank	2.98	1.27
The leaders assist employees who are unable to meet the expectations	2.71	1.27
The supervisors in our bank seek results more than the process	3.05	1.33
The employees who perform best in their duties are rewarded	3.06	1.33
There are set expectations for every employee in our bank	2.42	1.48
The opinions of the employees are sought before key decisions are made in our bank	2.88	1.26
The contributions/views given by the employees are considered in major strategies by the bank	2.62	1.61

There are employee participation procedures for employees to take part in banks' decisions	2.58	1.34
The leadership in our bank is effective in contributing to overall performance of the bank	2.80	1.30
The leaders in the bank focuses on developing people by providing appropriate guidance	2.77	1.40
There are delegations of duties to promote growth and development of the employees	2.84	1.34
The leaders in encourage and supports teamwork among the employees	2.73	1.26
Overall Mean	**2.73**	

4.3 Descriptive Statistics on Organizational Performance

The study sought to assess the organizational performance of commercial banks in Kenya. In this study, organizational performance was assessed in terms of key stakeholders who included the employees, the customers, the shareholders, the regulator and the general public/community. Based on these stakeholders, key measures of organizational performance were derived as: customer satisfaction, employee satisfaction, level of regulation compliance, the corporate social responsibility (CSR), the Return on Assets (ROA) and the Return on Investments (ROI). To establish the opinions of the respondents regarding these measures, a Likert's scale was used. Table 2 shows the findings.

Table 2: Descriptive Results on Organizational Performance

Statements	Mean	Std. Dev.
The bank frequently caries out customer satisfaction surveys	2.52	1.47
The customers have highly rated the services of our bank	2.26	1.35
There are minimal customer complaints on the services offered by our bank	2.23	1.23
The number of customers in the bank has been increasing significantly over the years	2.37	1.28
Employees are very committed to the bank	2.29	1.22
The number of employees willingly leaving the bank has reduced over the years	2.61	1.24
There are surveys carried out to assess the level of employee satisfaction in our bank	2.61	1.32
Employees openly reveal what they feel about the bank and how it treats its employees	2.66	1.33
The employees are monitored for compliance with organizational procedures and policies	2.33	1.32
The bank complies with the employment laws when making changes affecting the employees	2.35	1.33
Appropriate notices are given before the employees are rendered to any change in the bank	2.49	1.28

The bank has always complied with all the guidelines and regulations by the CBK	2.36	1.33
Our bank takes part in the social responsibilities in the country	2.37	1.33
The bank contributes to the voluntary calls toward national disasters (eg. COVID-19 fund)	2.23	1.34
Our bank has sought to fill societal gaps through contribution to charity	2.25	1.37
The bank has been recording increased profits over the years	2.17	1.36
The profits of the bank has surpassed that of the close competitors	2.42	1.42
The profits of the bank have been increasing with a significant margin with the sales	2.44	1.25

4.4 Hypothesis Testing on the Relationship between Organizational Leadership and Performance of Commercial Banks

The study sought to establish the effect of organizational leadership on the performance of commercial banks in Kenya. The model summary as shown in Table 3 revealed that the R-square (R^2) for the model was 0.218. This implies that 21.8% of the variation in performance of commercial banks in Kenya was as a result of organizational leadership.

The Analysis of Variance (ANOVA) test was carried out and the results revealed that the F-statistic for the variable was 88.919 at a significant level of 0.000<0.05. The findings implied that the model was statistically significant and would predict the relationship between organizational leadership and performance of commercial banks in Kenya.

The regression coefficients for the model results portray that the Beta coefficient for organizational leadership was 0.613 at a significant level of 0.000<0.05. The findings imply that a unit change in organizational leadership would influence the performance of commercial banks in Kenya by 0.613 units. The P-value being less than the standard p-value of 0.05 implies that there is a significant relationship between organizational leadership and performance of commercial banks in Kenya, thus the null hypothesis was rejected, and a conclusion drawn that organizational leadership as an aspect of corporate change has a significant effect on the performance of commercial banks in Kenya.

The findings imply that the prospects of leadership in the banks do not conform to those illustrated by Osunsan, Florence, Augustine, Abiria, and Innocent (2019) who indicates that for organizations to achieve the intended purpose of a change, the leadership should be committed, involve the workforce, and show a strategic direction through leading by example. The findings concur with those by Rozanna, Adam, and Majid (2019) who revealed that organizational leadership has the central role to ensure the corporate change works and the expected results are achieved. According to Brown and Abuatiq (2020), leaders in an organization are supposed to show the direction and ensure a full participation of every stakeholder in the organization particularly the employees. The authors further alluded that through continuous change in the way leadership is conducted in an organization, a more profound way of embracing new ways of doing things is enhanced in the organization thus providing a more room for improvement and continued performance

Table 3: Model Summary, ANOVA and Coefficients for Organizational Leadership

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.467[a]	.218	.216	.79629

a. Predictors: (Constant), Organizational Leadership

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	56.382	1	56.382	88.919	.000[b]
	Residual	202.270	319	.634		
	Total	258.652	320			

a. Dependent Variable: Organizational Performance
b. Predictors: (Constant), Organizational Leadership

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.730	.182		4.020	.000
	Organizational Leadership	.613	.065	.467	9.430	.000

a. Dependent Variable: Organizational Performance

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that organizational leadership has a significant influence on the performance of commercial banks in Kenya. Leaders who are able to set examples by doing what was required of them through commitments and daily routines were found to be effective towards leading the entire team to embrace the corporate change and utilize the change to enhance performance. The study further concluded that performance-oriented leaders who sought results and led the employees in achieving greater results were positively associated with superior organizational performance. Leadership focused on worker-participation by engaging the employees and ensuring they were well-consulted before changes were implemented and during the implementation of the change had a positive impact on the organizational performance of the banks. The study further concluded that organizational leadership through focus on team and people had a significant effect on the organizational performance of the banks. This form of leadership ensures that the corporate change is about the people and how they integrate any implemented change to their daily routine as a way of ensuring effective implementation of the change for enhanced performance.

The top leadership of commercial banks has a duty to ensure that the corporate changes are effectively implemented. This can be achieved through a committed leadership that is results-oriented and committed to lead by example. The top leadership should ensure that the changes in the commercial banks are implemented in a more people and team-centred leadership framework where the roles of the teams are prioritized to ensure a collective success in implementing the changes.

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