EFFECT OF STRATEGIC LEADERSHIP ON THE PERFORMANCE OF COMMERCIAL AND FINANCIAL STATE CORPORATIONS IN KENYA

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DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university or college for examination or academic purposes.

Signed…………………………………… Date…………………………………

Evelyn Katee Nthini
D61/60821/2011

This project has been submitted for examination with my approval as university supervisor.

Signed…………………………………… Date…………………………………

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DEDICATION

This project is dedicated to my parents Anthony Nthini Nzole and Agnes Mbithe Nthini for their unwavering support and also to my sister Cathryn Wausi, brothers Victor Mulwa, James Nzole, Paul Muia, Raphael Muthoka and Philip Musau who inspired and enlightened me.

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This study has been accomplished through the support and encouragement from various persons to whom am greatly indebted.

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To all I say, God bless you.

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ABSTRACT

This study aimed at establishing the effect of strategic leadership on performance of commercial and financial State Corporations in Kenya. Descriptive survey design was used. The target population consisted of all the forty eight (48) commercial and financial SCs in Kenya. Respondents were persons in charge of strategy or human resource department. Semi-structured questionnaire was used to collect primary data. The response rate of this study was 77.1% based on 37 respondents out of 48. The analysis of strategic leadership in commercial and financial state corporations showed that, in positive organizational culture, core values, symbols and ideologies are shared. Correlation analysis provided the relationship of strategic leadership practices and organizational performance showing that, there was a positively strong relationship between corporate strategic direction and high customer satisfaction. Balanced organizational controls showed a positive strong relationship with annual employee turnover. Strategic leadership practices have been discussed in this study, which include: determined corporate strategic direction, effectively managed corporate resource portfolio, emphasized effective organizational culture, emphasized ethical practices and balanced organizational controls. These practices have correlated highly with customer satisfaction, return on investment, net profit margin and low annual employee turnover. The correlation analysis that tested the level and significance of relationships of research variables confirmed that effective strategic leadership affects organizational performance. Therefore, this study adds to the body of knowledge of Barney and Arikan (2001) who explained that the most important task for strategic leaders is effectively managing the firm's portfolio of resources which can be categorized into financial capital, human capital, social capital and organizational culture. It has also added to the literature that effective strategic leadership promotes organizational performance. The researcher recommended that balanced organizational controls should be effectively applied to realize good performance. A further study can be undertaken on the effect of strategic leadership on the performance of regulatory state corporations in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Strategic leaders look forward in time to set directions for the organization (Arnott, 1995). Their power is increased when they scan and cope with the critical sectors of their environment (Hambrick, 1981). Strategic leaders make and communicate decisions for their organization's future (Zaccaro, 1996). They formulate the organization's goals and strategies, develop structures, processes, controls and core competencies for the organization, manage multiple constituencies, choose key executives, groom the next generation of executives, provide direction with respect to organizational strategies, maintain an effective organizational culture, sustain a system of ethical values, and serve as the representative of the organization to government and other organizations and constituencies as well as negotiate with them. Such strategic leadership must be able to deal with ambiguity, complexity, and information overload requiring adaptability and a sense of timing (Boal and Hooijberg, 2001).

Providing strategic leadership is an important role for the Chief Executive Officer (CEO) and for many other senior executives (Farkus and De Backer, 1996). They need to understand the health of their available markets, the products and services that can serve those markets advantageously, balance sheets and the availability of capital, how to optimize the interests of the various organizational constituencies, how to manage change in good times and bad times, how to use authority and accountability, and how to shape an effective management team of diverse competencies and interests.

In Kenya, a parastatal is a State Corporation (SC) under State Corporation Act Cap 446 (1987). SC has various meanings. First, it may be a corporate body established by or under an Act of parliament. Second, the president may by order establish a SC as a body corporate to perform the functions specified in the order. Third, it also represents a bank or a financial institution licensed under banking Act or other company incorporated under the company Act (Wamalwa, 2003). In the State Corporation Act, a SC has perpetual succession; in its corporate name is capable of suing and being sued and is capable of holding and alienating movable and immovable property. The President assigns ministerial responsibility for any SC and matters relating thereto to the Vice-President and the several Ministers as the President may by directions in writing determine. Subject to the Act, every SC has all the powers necessary or expedient for the performance of its functions, though the power of a state corporation to borrow money in Kenya or elsewhere is exercised only with the consent of the Minister and subject to such limitations and conditions as may be imposed by the Treasury with respect to SCs generally or specifically with respect to a particular SC.

Sessional Paper No.4 (GoK, 1991) on development and employment in Kenya decried the continued deterioration of the performance of SCs. The paper observed that while the creation of SCs through which government participation in economic activities was promoted was perhaps appropriate soon after independence, the objectives for and the circumstances under which most of the state enterprises where created have since changed. The paper underlined the need to implement privatization and divestiture of SCs urgently in view of the managerial problems afflicting the parastatals leading to poor return on government investments, the existence of a larger pool of qualified manpower, availability of more indigenous entrepreneurship to permit private sector - led economy and the need for non-tax revenue for the government.

1.1.1 Strategic Leadership

Strategic leadership is an ability of firms to anticipate, envision and maintain flexibility, and empower others to create a strategic chance and a viable future of the organization (Kjelin, 2009). Guillot (2003) defines strategic leadership as the ability of an experienced, senior leader who has wisdom and vision to create and execute plans and make consequential decisions in the volatile, uncertain, complex and ambiguous strategic environment. Montgomery (2008) argues that, few leaders allow themselves to think about strategy and the future. Leaders should give direction to every part of the organization – from the corporate office to the loading dock. Strategic leadership is therefore the ability of the leaders to create and re-create reasons for the organization's continued existence. The leader must have the ability to keep one eye on how the organization is currently adding value and the other eye on changes, both inside and outside the organization, that either threaten its position or present some new opportunity for adding value.

Some researchers belief that strategic leadership concept may become the most apt concept to embracing better value driven culture in public sector in the era of the 21st century (Draft & Pirola-Merlo 2009 ; Jing & Avery 2008; Ireland and Hitt 2005). Leadership in public sector tend to face the great challenges due to the prominent rule-based and too bureaucratic leadership styles, non performance based Human Resource Management (HRM) culture, and lack of innovative management practices. Several key roles of strategic leadership can be offered as strategies to sustain public organization performance outcome (Ireland & Hitt, 2005)

1.1.2 Organizational Performance

Amstrong (1994) defines performance as the record of outcomes produced on a specified job function or activity during a specified period of time. Therefore performance is measured in terms of output and outcome, profit, internal processes and procedures, organizational structures, employee attitudes, and organizational responsiveness to the environment among others (William 2002). Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al (2009) organizational performance encompasses three specific areas of firm outcomes: financial performance (profits, return on assets, return on investment, etc.); product market performance (sales, market share, etc.) and shareholder return (total shareholder return, economic value added).

In recent years, many organizations have attempted to manage organizational performance using the balanced scorecard methodology where performance is tracked and measured in multiple dimensions such as: financial performance (e.g. shareholder return), customer service, social responsibility (e.g. corporate citizenship, community outreach) and employee stewardship. Performance Contracting (PC) is also being used to measure performance since PC defines expectations (the work, the results to be attained and the attributes) and competencies required to achieve results. PC also identifies the measures used to monitor, review and assess performance (Amstrong 1994).

1.1.3 Commercial and Financial State Corporations in Kenya

State Corporations are established for implementation of government policies and programmes for socio-economic development. The principles for their establishment are operational autonomy, flexibility, results- orientation, value for money and greater accountability and transparency that are difficult to realize in mainstream government bureaucracy. SCs are operationally autonomous from government in that they operate at arms' length and may partially, or even fully funded by government or financially independent on account of profits, fees, commissions, and other internally generated funds (Republic of Kenya, 2008).

Republic of Kenya (2008) Commercial oriented SCs generally do not depend on Exchequer funding to meet their operations, except in cases where they are required to carry out social programmes or where an entity is unable to sustain itself on account of persistent poor performance. Sessional Paper No. 10 of (1965) on African Socialism its Application to planning in Kenya. In the policy among other issues encouraged expansion of existing boards and government investments in joint ventures with private capital with a view to: accelerate economic and social development, redress regional economic imbalances, increase Kenyan citizen's participation in the economy, and promote foreign investments through joint ventures. The policy envisaged that the nationalized operations would operate efficiently, cover costs and earn profits.

In 2004 the government categorized SCs into eight (8) classes for purposes of determination of remuneration of board of directors, management and staff and provided a framework for recruitment of Chief Executive Officers. The lumped together Government Owned Entities that must operate profitably and compete in their sector and non-profit SCs without distinguishing their unique operating environment. Categorization also became a basis for determination of salaries without due consideration to market for talents required to deliver mandates. The policy identified the need to have a distinct classification of commercial and non-commercial entities to address their unique operating environment and governance structures in order to make them more responsive to their operational needs and give them the enabling environment to effectively deliver on their mandates (Republic of Kenya, 2009).

1.2 Research Problem

Some researchers belief that strategic leadership concept may become the most apt concept to embracing better value driven culture in public sector in the era of the 21st century (Draft & Pirola-Merlo 2009 ; Jing & Avery 2008; Ireland and Hitt 2005). Leadership in public sector tend to face the great challenges due to the prominent rule-based and too bureaucratic leadership styles, non-performance based HRM culture, and lack of innovative management practices. Several key roles of strategic leadership can be offered as strategies to sustain public organization performance outcome (Ireland & Hitt, 2005). The role of leadership is of fundamental importance to the performance and success of organizations (Breene & Nunes, 2006).

World Bank (2004) article stated as follows: A key area for corruption-busting reform is the parastatal sector. When compared to similar economies, Kenya has an over-abundance of SCs many of which are a drain on public resources; more to the point, they have been the locus of corruption that thrives in public monopolies, especially when coupled with lax oversight, management and fiduciary control procedures. An area of parastatal dominance that cries out for reform is the financial sector. For years the financial sector was the vehicle for illegal and corrupt transactions, not to mention mismanagement – the result is that the public sector banks are left holding loans, up to 30 percent of which are non-performing, with the result being restricted credit availability to honest individuals.

Serfontein (2010) did a research on the impact of strategic leadership on the operational strategy and performance of business organizations in South Africa. The research found that strategic leadership is directly and indirectly positively associated with operational strategy and organizational performance of business organizations in South Africa. Also the research recommended that organizations that want to improve their performance need to implement effective strategic leadership practices. The research focused on private business organizations in South Africa and this study was on SCs which function under strict regulations and they are government owned and therefore there was a research gap. Miring'u (2011) did an analysis of the effect of corporate governance on performance of commercial SCs in Kenya. The analysis concluded that corporate governance brings new outlook and enhances a firm's corporate entrepreneurship and competitiveness thus a positive relationship between ROE, board size and board composition. The analysis did not focus on how strategic leadership affects performance in commercial and financial SCs hence there was a research gap.

Mwaniki (2010) did a study on the impact of Performance Contracting on the performance of commercial State Owned Enterprises. The study found that there was a significant impact of PCs in the financial performance of the State Owned Enterprises. The study focused on the impact of PCs on performance of commercial State Owned Enterprises and therefore there was a research gap in terms of how strategic leadership affected performance of commercial and financial SCs. Wamalwa (2009) studied the relationship between Performance Contracts and financial performance of Kenya Railways (KR) and Kenya Airports Authority (KAA). The study concluded that PCs have been largely successful tools in improving the financial performance of KR and KAA. The study focused on the relationship between PCs and financial performance leaving a gap on the effect of strategic leadership on performance of commercial and financial SCs. The above studies focused on several aspects that affect the performance of SCs in Kenya and business organizations in South Africa but to the best of the researcher's knowledge there was no study that tried to establish the effect of strategic leadership on the performance of commercial and financial SCs in Kenya hence a research gap.

1.3 Research Objective

To establish the effect of strategic leadership on performance of commercial and financial State Corporations in Kenya.

1.4 Value of the Study

Academicians and researchers; this study is aimed at helping them to understand how strategic leadership affects the performance of commercial and financial SCs in Kenya. And also identify areas of further research in the area of strategic leadership on performance of organizations.

Executives/ corporations; this study will help executives understand the importance of strategic leadership on performance of SCs in Kenya. This will help them in highlighting areas that need to be improved and make strategic leadership a tool of performance.

Policy makers (government and regulators); this study will help policy makers to identify whether there is any improvement in the performance of commercial and financial SCs that can directly be attributed to strategic leadership. Therefore the study will help policy makers to ensure high performance of the SCs.

Investors; this study will help investors understand the management of SCs in Kenya and measures that the government has taken to ensure their performance improves.

Therefore, this study will inform investors as they make decisions of investing in the Kenyan State Corporations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the concept of strategic leadership; actions of strategic leadership; and strategic leadership and performance.

2.2 Strategic Leadership

In the recent years there has been increased interest in “Strategic Leadership” by top executives (Yukl, 2010). According to Bateman and Snell (2009), strategic leadership gives purpose and meaning to organizations. Strategic leadership involves anticipating and envisioning a viable future for the organization and working with others to create such a future. Rowe (2001) defined strategic leadership as the ability to influence others to voluntarily make day-to-day decisions that enhance the long term viability of the organization, while at the same time maintaining its short-term financial stability. Amos (2007) has a similar view to Rowe and defines strategic leadership as the ability to understand the entire organization and the environments within which they operate and using this understanding to create strategic change through other people so as to position the organization in the environment for both short-term stability and long-term viability.

In recent years, competitive markets and business environments have been volatile, turbulent, uncertain, complex, and heterogeneous. Thus, firms have implemented valuable competencies, capabilities and strategies for their business operations and activities in order to enhance business excellence, encourage competitive advantage, achieve firm performance, gain corporate survival, and promote organizational sustainability in these circumstances. Strategic leadership has become a key determinant of driving and explaining firms' competitiveness, and profitability. Firms with greater strategic leadership tend to achieve higher firm performance and enhance organizational success in the business operations. The attainment of the strategic objectives underlying strategic decisions is accomplished through the effective practice of strategic leadership (van der Merwe and van der Merwe, 1985).

Strategic leadership focuses on the future, to create excitement for the future, as well as for what is happening today. A primary goal of a strategic leader is to gain a better understanding of the business conditions, the environment and other aspects that identify the challenges of the future. In their review of the strategic leadership literature, Boal & Hooijberg (2001) made the distinction that theories of leadership are about leadership in an organization but that strategic leadership is of leadership of the organization. Strategic leadership is marked by a systemic concern for the whole organization, its evolution, changing aims as well as the selection, development and maintenance of the requisite resources and capabilities to enable it to compete.

According to Nel (2008), the core challenge for organizations is to provide sufficient clear structure to ensure that all people in the organization are familiar with and willing to endorse good strategic leadership practices. This may in practice, mean that people must initially be directly involved in debating and defining the need for such a strategy. The surest way of achieving this is to develop and utilize an integrated strategic leadership framework that is capable of being applied to the broadest possible range of business-related issue and components. It is very important for organizations to identify, balance, integrate and align all of the external and internal variables that are likely to have an impact on the organization’s capacity to fulfill strategic leadership. This includes the identification of trends, patterns and possible reactions that may be caused by the activation of strategic leadership. Taking the necessary steps and action to ensure the delivery of products and services which meet the needs of both internal and external customers is very important for the future focus of the organization. Issues such as empowerment and personal accountability for building quality are important factors at this level of strategic leadership.

According to Fulmer (2007), strategic leadership problems of current and future leaders are: competition is coming from unexpected quarters. Because the rules of the business game are changing with this competition, current leaders represent what the business needed in the past and not the present or the future; the talent pipeline often lacks sufficient numbers to replace leaders that are or soon will be leaving; the organization's expansion goals outstrip the amount of internal talent needed to support them; globalization and increasing technological demands make the leader's job more difficult than ever; problems with strategic direction, organizational alignment and employee commitment continue to exist and are exacerbated in the current competitive environment; human resources and those responsible for leadership development feel increased pressure to demonstrate value, particularly in terms of return on investment for leader development, and other education and training initiatives; leadership development initiatives are not integrated with business needs, and consequently, are of questionable value to internal customers.

2.3 Actions of Strategic Leadership

Several identifiable actions characterize strategic leadership that positively contributes to effective use of the firm's strategies (Dyck, et. al, 2002). These actions are: managing the firms resources effectively (includes developing human capital), establishing a strategic direction, fostering an effective culture, exploiting core competencies using effective organizational control systems, and establishing ethical practices. These actions are reviewed below.

2.3.1 Determining Strategic Direction

Strategic direction involves developing long-term vision of the firm's intent. A long-term vision typically looks at least five to ten years in future. According to Prokesch (1997) the purpose and vision of an organization aligns the actions of people across the whole organization. A real vision is very active and all the people in the organization understand the vision and live it. It is also filled with drive and energy and people are proud to talk about their organization's purpose and vision. Nel (2008) warns that the biggest trap that leadership in organizations fall to is when they are so sure of their vision and direction that they fail to see new opportunities. Therefore, when an organization's strategic leadership fails to continuously address the full spectrum of issues that may have an effect on the performance of the organization it is likely that the organization will encounter challenges for which it is not prepared. It is therefore expected of leadership in the organization to provide certainty together with uncertainty. It is also necessary for the leadership to create constant tension between the desirable future and those elements of the present that could inhibit progress. To achieve this, leaders must continuously create burning platforms so that it is impossible for the organization to maintain the status quo.

2.3.2 Effectively Managing the Firms Resource Portfolio

Probably the most important task for strategic leaders is effectively managing the firm's portfolio of resources which can be categorized into financial capital, human capital, social capital and organizational culture (Barney and Arikan, 2001). According to Distefano and Maznevski (2003), building human capital is vital to the effective execution of strategic leadership. Strategic leaders must acquire the skills necessary to help develop human capital in their areas of responsibility. Grant (1996), core competencies are the resources and capabilities that give an organization a competitive advantage over its rivals. The relatively unstable market conditions resulting from innovations, diversity of competitors, and the array of revolutionary technological changes occurring in the new competitive landscape have caused core competencies rather than served markets to become the basis upon which organizations establish their long-term strategies.

McCauley & Van Velsor (2004) argues that leaders develop skills and perspectives that enable them to facilitate the accomplishment of work in organizational systems. Organizations consist of many individuals, groups and subsystems that need to work independently to accomplish collective goals and outcomes. Individuals in leadership roles facilitate the implementation, coordination and integration of this work. Work facilitation competencies include managerial skills, the ability to think and act strategically, the competence to think creatively and the ability to initiate and implement change. Management skills encompass a broad range of competencies related to the facilitation and coordination of day to day work in organizations, including setting goals and creating plans for achieving those goals, monitoring progress, developing systems, solving problems and making decisions.

According to Nel (2008), human capital is the knowledge and skills of an organization's entire workforce. Strategic leaders are those who view organizational employees as a critical resource on which many core competencies are built and through which competitive advantages are exploited successfully. In the global economy, significant investments will be required for the organization to derive full competitive benefit from its human capital. Some economists argue that these investments are essential to robust long - term growth in modern economies that depend on knowledge, skills, and information. Continual, systematic work on the productivity of knowledge and knowledge workers enhances the organizations ability to perform successfully. Employees appreciate the opportunity to learn continuously and feel greater involvement with their community when encouraged to expand their knowledge base. Developing employees result in a motivated and well educated workforce. The type of workforce that is capable of performing very well (Miller, 1996).

2.3.3 Sustaining Effective Organizational Culture

Organizational culture consists of a complex set of ideologies, symbols and core values that are shared throughout the organization and influences the way business is conducted. Evidence suggests that a firm can develop core competencies in terms of both capabilities it possess and the way the capabilities are leveraged by strategies to produce desired outcomes. In other words, because the organizational culture influences how the firm conducts its business and it helps regulate and control employees' behavior, it can be a source of competitive advantage (Gupta and Govindarajan, 2000). According to Zellner (1997) some organizational cultures operate in a heavy-handed and competitive manner with little room for mistakes and no patience with the expression of discontent. It is very important to remember that cultural norms can transmit effective and healthy patterns of behaviour as well.

Drucker (1997) argues that every organization has a culture that helps to shape and define the context in which an individual's behaviour is perceived and judged. The emphasis a leader gives is influenced by the organization's culture and the formal and informal reward systems that reinforce that culture. Often the most powerful factors are subtle and difficult to observe unless one is part of the system. The powerful rules that drive and hone leader behaviour are often the unwritten and unspoken threads that are woven into the fabric of day-to-day life. Employees come to know these subtleties by how they are rewarded or punished. The rewards and punishments are themselves often subtle. They shape the behaviour and are most powerful when they are outside the leadership's awareness (Drucker, 1997).

2.3.4 Emphasizing Ethical Practices

Effectiveness of processes used to implement the firm's strategies increases when they are based on ethical practices. Ethical companies encourage and enable people at all organizational levels to act ethically when doing what is necessary to implement the firm's strategies. For instance Royal Ahold NV, a large international supermarket chain based in the Netherlands had major accounting problems. It overstated its earnings in 2001 and 2002 and also it had illegal transactions in its Argentine subsidiary. Because of these problems the CEO and the CFO of Ahold were discharged (Ball, Zimmerman and Veen, 2003). These incidents suggest that firm's need to employ ethical strategic leaders who include ethical practices as part of their long-term vision for the firm, who desire to do the right thing and for whom honesty, trust and integrity are important (Robertson and Crittenden, 2003).

2.3.5 Establishing Balanced Organizational Controls

Controls are necessary to help ensure that firm's achieve their desired outcomes (Redding, 2002). These are formal information based procedures used by managers to maintain or alter patterns in organizational activities. Controls help strategic leaders build credibility, demonstrate the value of strategies to the firm's stakeholders and promote and support strategic change (Shields, Deng and Kato, 2000). According to Hitt & Hoskisson (1996) the organization's capacity to control, monitor and track progress for programmes, projects and monthly results need to be well established. Leaders are therefore responsible for the development and effective use of two types of internal controls, namely strategic controls and financial controls.

Strategic controls require information-based exchanges among the CEO, leadership team members, and employees. To exercise effective strategic control, leaders must acquire deep understanding of the competitive conditions and dynamics of each of the units or divisions for which they are responsible. Exchange of information occur through both informal, unplanned meetings and interactions scheduled on a routine formal basis. The effectiveness of strategic controls is increased substantially when strategic leaders are able to integrate disparate sets of information to yield competitively relevant insights (Hitt & Hoskisson, 1996). Financial controls focuses on short-term financial outcomes (Laverty, 1996).

The balanced scorecard is a framework that firms can use to verify that they have established both strategic and financial controls to assess their performance (Kaplan and Norton, 2001). The underlying premise of the balanced scorecard is that firm's jeopardize their future performance possibilities when financial controls are emphasized at the expense of strategic controls (Becker, Huselld and Ulrich 2001). In that financial controls provide feedback about outcomes achieved from past actions but do not communicate the drivers of the firm future performance. Thus an overemphasis on financial controls could promote organizational behavior that has a net effect of sacrificing the firm's long-term value creating potential for short-term performance gains (Kaplan and Norton, 1992). An appropriate balance of strategic controls and financial controls rather than an overemphasis on either, allows firms to effectively monitor their performance. The four perspectives are integrated to form the balanced scorecard framework are: financial, customer, internal business processes, and learning and growth (Mische 2001).

2.4 Strategic Leadership and Performance

In general, the concept of organizational performance is based upon the idea that an organization is the voluntary association of productive assets, including human, physical, and capital resources, for the purpose of achieving a shared purpose (Alchian & Demsetz, 1972; Barney, 2001; Jensen & Meckling, 1976). Those providing the assets will only commit them to the organization so long as they are satisfied with the value they receive in exchange, relative to alternative uses of the assets. As a consequence, the essence of performance is the creation of value. So long as the value created by the use of the contributed assets is equal to or greater than the value expected by those contributing the assets, the assets will continue to be made available to the organization and the organization will continue to exist. Therefore, value creation, as defined by the resource provider, is the essential overall performance criteria for any organization.

The role of leadership is of fundamental importance to the performance and success of organizations. This includes many aspects like visionary, motivator, enabler, facilitator as well as mentor and coach. At the start-up stage of a business organization, the managing director or leader is responsible for the supply of the product or service, the administration, the management and the sales and marketing. In effect the business is the leader and the leader is the business. As the business grows, the leader has to concentrate on the overall strategic direction and delegate some of the operational and technical decisions to appointed staff and employees. The leader has to give responsibility on the basis of trust or design control systems to monitor individual activity. The leader will now also have to employ management and staff with the necessary specialist skills. In order for the business to grow, sales revenue must increase which means that more products are manufactured or quality is improved to justify an increased unit price or product range (Breene & Nunes, 2006).

The leader must also understand the critical interplay between capabilities and value creation, a relationship that goes to the heart of high performance in business organizations (Breen & Nunes, 2006). To create value, each high performing organization develops a formula for doing business - either at the enterprise or business unit level - that successfully translates a big idea regarding customer needs into a unique set of connected business processes and resources that cost-effectively satisfy those needs. Innovation and talent management are also two of the essential capabilities needed for high performance in a business organization. The investment in training and leadership development to enhance innovation and the development of talent has been observed as a crucial strategic focus in high-performing business organizations (Nel & Beudeker, 2009). Every high performing business organization also has a high performance culture.

There is a definite relationship among the leadership's characteristics, an organization's strategies, and its performance. When the board of directors and the leadership in the organization are involved in shaping an organization's direction, the organization generally improves its performance critical element of strategic leadership and organizational performance, is the ability of leadership to manage and utilize the organization's resource portfolio. This includes integrating resources to create capabilities and leveraging those capabilities through strategies to build competitive advantages and high performance (Ireland & Hitt, 2002).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research design, population, data collection and data analysis.

3.2 Research Design

The study used a descriptive survey design. The descriptive research is a prominent data collection methodology in both quantitative and qualitative research. This approach allowed analysis of respondents in producing insights into the effect of strategic leadership on the performance of commercial and financial SC's in Kenya.

3.3 Population

The target population consisted of all the forty eight (48) commercial and financial SC's in Kenya (Appendix I). Respondents were persons in charge of strategy or human resource department. It was a census study since it involved every member of the target population.

3.4 Data Collection

Primary data was used. The data was collected through semi-structured questionnaire. The questionnaire contained likert scale and closed questions. Drop and pick method was used to administer the questionnaires. Respondents were persons in charge of strategy or human resource department. The questionnaire consisted of three sections. Section one focused on general information, section two focused on strategic leadership and section three focused on performance.

3.5 Data Analysis

Questionnaires were edited for completeness and consistency. Data was coded and tabulated. Descriptive statistics was used to analyze data. They included frequency distribution, measures of central tendency (mean) and measures of variation (standard deviation). The results were presented in tables and charts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the findings of the study and the analysis from the data collected from the commercial and financial state corporations in Kenya. The analysis and discussion in this chapter focuses on the major objective on the effect of strategic leadership on the performance of commercial and financial state corporations. The subtitles discussed include; the response rate, background information, strategic leadership, organizational performance and the relationship between the strategic leadership and organizational performance presented by correlation analysis.

4.2 Response Rate

Table 4.1: Response Rate

	Frequency	Percent
Responded	37	77.1
Did not respond	11	22.9
Total	48	100.0

Source: Research data, 2013

From the 48 respondents sampled to participate, 37 responded while 11 did not respond. This formed a response rate of 77.1%. The response rate was adequate to analyze the effect of strategic leadership on the performance of commercial and financial state corporations since it was above 50% according to the recommendation of Mugenda (2009).

4.3 Demographic Information

The demographic information reveals data related to respondents gender, age, academic level and the period they have worked in their respective institutions.

4.3.1 Gender of the Respondents

Table 4.2: Gender of the Respondents

	Frequency	**Percent**
Male	22	59.5
Female	15	40.5
Total	37	100.0

Source: Research data, 2013

Gender characteristic of the respondents showed that, majority of the respondents equivalent to 59.46% were male against 40.54% who were female. This indicates that, opinions presented by respondents in relation to strategic leadership and organization performance were from each gender category. Therefore, the results obtained could be attributed or inclined to a particular gender.

4.3.2 Respondents' Age

Table 4.3: Respondents Age

	Frequency	**Percent**
26-35 years	10	27.0
36- 45 years	23	62.2
Above 45 years	4	10.8
Total	37	100.0

Source: Research data, 2013

Majority of the respondents tallying to 62.1% were aged between 36-45 years. More than a quarter equivalents to 27.3% were aged 26.35 years while a proportion of 10.8% were aged above 45 years. There were no respondents aged below 25 years.

4.3.3 Educational Background

Table 4.4: Educational Background

	Frequency	Percent
Post graduate	13	35.1
Graduate	24	64.9
Total	37	100.0

Source: Research data, 2013

An analysis of the level of education of the respondents showed that, more than half of the respondents, represented by 64.86% are graduates. Those who indicated their academic level as postgraduate were 35.14%. Education background defines the level of understanding of the research instrument and the phenomena under study. Therefore, respondents in this study understood effect of strategic leadership on organization performance and thus presented relevant information.

4.3.4 Length of Service

Table 4. 5: Length of Service

	Frequency	Percent
1-3 Years	12	32.4
4-8 Years	19	51.4
Above 8 Years	6	16.2
Total	37	100.0

Source: Research data, 2013

Majority of the respondents have worked in their respective organization for a period of 4-8 years. This category was characterized by a proportion of more than half of the respondents. Those who have worked for 1-3 years were 32.43% of the respondents while a proportion of 16.22% indicated that they have worked for a period of more than 8 years. The length of working reveals the experience respondents have based on study phenomena. Therefore, from the study findings, it can be deduced that respondents had experience on strategic leadership and were well versed with the level of performance in their respective institutions, and that they knew the relationship between strategic leadership and performance.

4.4 Strategic Leadership

Table 4.6: Descriptive Statistics on Strategic Leadership

	N	Mean	Std. Deviation
Effective organizational culture is emphasized	37	4.78	0.417
Corporate strategic direction is determined	37	4	0.667
Ethical practices are emphasized	37	3.78	0.886
Corporate resource portfolio is effectively managed	37	3.76	0.863
Balanced organizational controls are emphasized	37	3.24	0.435

Source: Research data, 2013

The analysis of strategic leadership in commercial and financial state corporations tested some benchmark assertion aimed at presenting the effect of strategic leadership on organizational performance. The study used a five point Likert scale in testing the level of agreeing from the respondents, whereby, 5- represented very strongly agree and 1- slightly agree. Findings from the study were clear that effective organizational culture which constitute of core values, symbols and ideologies shared is emphasized in these institutions as shown by a mean of 4.78.

Respondents also concurred with the assertion that corporate strategic direction is determined in their institutions. This was shown by a mean of 4. On the other hand, respondents agreed to some extent that ethical practices in their respective corporations are emphasized. This was determined by the mean of 3.78 gotten from the study results.

Moderately the assertion that corporate resource portfolio measured by financial capital, human capital, social capital and organizational culture is effectively managed had a mean of 3.76. The lastly rated variable in relation to strategic leadership was the statement that balanced organizational controls in commercial and financial state corporations are emphasized. This assertion received a mean of 3.24.

4.5 Organization Performance

Table 4.7: Descriptive Statistics on Organization Performance

	N	Mean	Std. Deviation
Customer satisfaction is high (above the industry average)	37	3.65	0.919
Net profit margin/ return on sales is high (above the industry average)	37	3.43	1.068
Annual turnover is high (above the industry average)	37	2.95	1.353
Return on investment/ assets/ equity is high (above the industry average)	37	2.86	0.855
The corporation's market share (growth) is higher than those of the competitors	37	2.68	1.27

Annual employee turnover (not the retired or discharged staff) is high (above the industry average)	37	1.68	0.784

Organizational performance as attributed to strategic leadership was tested with varied measures in this study. Respondents were asked to express their level of agreeing measured against five point Likert scale with 1 representing slightly agree and 5 very strongly agree. The descriptive statistics showed that, from the commercial and financial state corporations investigated, customer satisfaction is high above the industry average. This assertion received a mean of 3.65.

Respondents also concurred with the statement that, due to strategic leadership in their institutions, net profit margin/ return on sales was high as indicated by a mean of 3.42. Other measures of performance tested in relation to strategic leadership showed a moderate and low rate of agreeing from respondents. These include; high annual turnover represented by a mean of 2.95, high return on investment / assets/ equity as indicated by a mean of 2.86 and that the corporation's market share is higher than those of the competitors represented by a mean of 2.68. Respondents slightly agreed with the assertion that annual employee turnover is high in their respective institutions as shown by a mean of 1.68.

The research findings on organization performance as attributed to strategic leadership concurs with the literature from different authors that; firms with greater strategic leadership tend to achieve higher firm performance and enhance organizational success in the business operations. The attainment of the strategic objectives underlying strategic decisions is accomplished through the effective practice of strategic leadership (van der Merwe and van der Merwe, 1985). In addition the study agree with the comments of Barney and Arikan (2001) that, probably the most important task for strategic leaders is effectively managing the firm's portfolio of resources which can be categorized in to financial capital, human capital, social capital and organizational culture.

4.6 Relationship between Strategic Leadership and Organizational Performance

In determining the interaction of application of strategic leadership practices and its effect on performance, a correlation analysis was undertaken. Thus, study variable on the effect of strategic leadership was correlated with organizational performance. The results of correlation analysis were judged based on the strength of relationship between the correlated variables, whether or not the correlation coefficient was negative or positive and whether the correlation coefficient was statistically significant. Interpretations were made based on the following scale.

-1	Perfect negative relationship between the variables
-0.10	Almost no relationship
0	No relationship between the variables
0.02-0.09	Very weak relationship
0.10-0.29	Weak relationship
0.30-0.49	Moderately weak relationship
0.50	Moderate relationships
0.50-0.60	Moderately strong relationship
0.70-0.89	Strong relationship
0.98-0.98	Very strong relationship
0.99	Almost perfect relationship
+1	Perfect positive relationship between the variables

Table 4. 8: Results of Correlation Analysis for the Relationship between Strategic Leadership and Organizational Performance

Correlations							
		Return on investment/ assets/ equity is high	Net profit margin/ return on sales is high	The corporation's market share is higher than those of the competitors	Annual turnover is high	Annual employee turnover is high	Customer satisfaction is high
Corporate strategic direction is determined	Pearson Correlation	.341*	.273	.230	.462**	-.425**	.725**
	Sig. (2-tailed)	.039	.102	.172	.004	.009	.000
	N	37	37	37	37	37	37
Corporate resource portfolio is effectively managed	Pearson Correlation	-.046	.117	.255	.417*	.044	.870**
	Sig. (2-tailed)	.788	.489	.127	.010	.794	.000
	N	37	37	37	37	37	37
Effective organizational culture is emphasized	Pearson Correlation	-.629**	-.221	-.084	-.366*	.459**	-.783**
	Sig. (2-tailed)	.000	.190	.623	.026	.004	.000
	N	37	37	37	37	37	37
Ethical practices are emphasized	Pearson Correlation	-.480**	.366*	.627**	.616**	.576**	.381*
	Sig. (2-tailed)	.003	.026	.000	.000	.000	.020
	N	37	37	37	37	37	37
Balanced organizational controls are emphasized	Pearson Correlation	-.805**	.126	.448**	.306	.727**	.220
	Sig. (2-tailed)	.000	.457	.005	.065	.000	.191
	N	37	37	37	37	37	37
**. Correlation is significant at the 0.01 level (2-tailed).							
*. Correlation is significant at the 0.05 level (2-tailed).							

Source: Research data, 2013

In this analysis, strategic leadership practices consisted of five variables while organizational performance comprised of six variables. These are shown in table 4.8. Each of the strategic leadership variables was correlated with each organizational performance variable. The results are presented in table 4.8. As indicated on table 4.8, there is a positive, moderate weak relationship between determined corporate strategic direction and return on investment/ assets/ equity (r= 0.341, $P \leq 0.05$) meaning that the relationship is significant. The same variable of determined corporate strategic direction showed a positive, moderate weak relationship with high annual turnover and negative, moderate weak relationship with annual employee turnover. These are shown by the correlation coefficient of 0.462 and -0.425 respectively. In addition, there is a positively strong relationship between corporate strategic direction and high customer satisfaction with a coefficient of 0.725. $P \leq 0.05$ meaning correlations were significant.

High annual turnover has a positive, moderate weak relationship with effectively managed corporate resource portfolio as shown by correlation coefficient of 0.417 which is significant at its *P* value of 0.010. High customer satisfaction has positive, strong relationship with effectively managed corporate resource portfolio indicated by coefficient of 0.870. This relationship was confirmed significant by the *P* value of 0.00.

The correlation analysis further indicated the presence of negative and moderate weak relationship between high annual turnover, and positively, moderate weak relationship between high employee turnover and emphasized effective organizational culture. These relationships were significant as per *P* values. In addition, emphasized effective organizational culture showed negative strong relationship with high return on investment and high customer satisfaction. This was indicated by correlation coefficient of -0.629 and -0.783. The same correlation was confirmed significant since the *P* value was 0.000. Emphasized ethical practices showed significant relationship with all performance measures tested, with high return on investment showing negative and moderately weak relationship.

Balanced organizational controls presented a negative strong relationship with return on investment as shown by a correlation coefficient of -0.805. In addition, the balanced organizational controls showed a positive strong relationship with annual employee turnover and positive, moderate weak relationship with high corporations market share. These were represented by correlation coefficients of 0.727 and 0.448 respectively. The correlation of balanced organization controls was significant in relation to *P* values being less than 0.01. The other variables of strategic leadership practices and performance showed neither any correlation nor any significant relationship.

4.7 Discussion

Limited research has thus far been conducted on the effect of strategic leadership on the performance of commercial and financial SCs in Kenya. One study has been done in South Africa in 2010 by Jacob Serfontein on the impact of strategic leadership on the operational strategy and performance of business organizations in South Africa. The study found out that effective strategic leadership practices are directly and indirectly positively associated with organizational performance. Furthermore, the study found out that strategic leadership is related to return on assets. Serfontein (2010) study was based on successful strategic leadership practices in business organizations in South African context. The study asserted that effective strategic leadership practices could help business organizations in South Africa to enhance their performance while competing in turbulent and unpredictable environments.

The study measured the relationship between strategic leadership, operational strategy and organizational performance using correlation analysis which recorded a strong positive statistically significant relationship between strategic leadership and organizational performance. Serfontein's study findings were suggested and supported by literature review. The data from Serfontein's study confirmed the statistically significant and strong relationship between strategic leadership, operational strategy and organizational performance

This study found out that determining corporate strategic direction lead to high customer satisfaction and high annual turnover as organizational performance aspects. This was shown by the correlation analysis having strong positive statistically significant relationships. The literature review supports that an organization's strategic leadership fails to continuously address the full spectrum of issues that may have an effect on the performance of the organization it is likely that the organization will encounter challenges for which it is not prepared. It is therefore expected of leadership in the organization to provide certainty together with uncertainty. It is also necessary for the leadership to create constant tension between the desirable future and those elements of the present that could inhibit progress. To achieve this, leaders must continuously create burning platforms so that it is impossible for the organization to maintain the status quo.

This study also found out that effective management of corporate resource portfolio lead to high annual turnover and high customer satisfaction. This was shown by the correlation analysis having positive statistically significant relationships. The literature review in this study confirms that the most important task for strategic leaders is effectively managing the firm's portfolio of resources which can be categorized in to financial capital, human capital, social capital and organizational culture (Barney and Arikan, 2001).

The research findings on organization performance as attributed to strategic leadership concurs with the literature from different authors that; firms with greater strategic leadership tend to achieve higher firm performance and enhance organizational success in the business operations. The attainment of the strategic objectives underlying strategic decisions is accomplished through the effective practice of strategic leadership (van der Merwe and van der Merwe, 1985). Effective strategic leadership practices which are: emphasizing on effective organizational culture, determining corporate strategic direction, emphasizing on ethical practices, managing effectively corporate resource portfolio, and emphasizing on balanced organizational controls enhances strategic competitiveness of the organization that lead to high organizational performance. Therefore these two studies have shown that successful implementation of strategic leadership practices enhances high organizational performance.

Serfontein (2010) researched on the impact of strategic leadership on the operational strategy and performance of business organizations in South Africa while this study focused on the effect of strategic leadership on the performance of commercial and financial SCs in Kenya. The different between the two studies was the context at which the organizations operate. That is public and private sectors. SCs function under strict regulations and they are government owned.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusion and recommendations to the study based on research findings. The study sought to establish the effect of strategic leadership on the performance of commercial and financial state corporations in Kenya.

5.2 Summary

The response rate of this study was 77.1% gotten from 37 respondents out of 48 who responded to the research instrument. The analysis of strategic leadership in commercial and financial state corporations which was tested by some benchmark assertions showed that, in positive organizational culture, core values, symbols and ideologies are shared. Respondents also concurred with the assertion that corporate strategic direction is determined in their institutions. The other assertions were agreed moderately by the respondents. These included; emphasized ethical practices effectively managed corporate resource. Balanced organizational controls in commercial and financial state corporations are lowly emphasized.

Organizational performance as attributed to strategic leadership tested indicated that, customer satisfaction was high above the industry average. The results further revealed that there was high net profit margin/ return on sales and low annual employee turnover. However, high annual turnover and higher corporation's market share were lowly responded.

Correlation analysis provided relationship of strategic leadership practices and organizational performance showing that, there was a positively strong relationship between corporate strategic direction and high customer satisfaction. Balanced organizational controls showed a positive strong relationship with annual employee turnover and positive, moderate weak relationship with high corporation's market share. However, effective organizational culture showed negative strong relationship with high return on investment and high customer satisfaction. These relationships were confirmed significant in this study.

5.3 Conclusion

The strategic leadership practices have been discussed in this study, which include: determined corporate strategic direction, effectively managed corporate resource portfolio, emphasized effective organizational culture, emphasized ethical practices and balanced organizational controls. These practices have correlated highly with customer satisfaction, return on investment, net profit margin and low annual employee turnover. The correlation analysis that tested the level and significance of relationships of research variables confirmed that effective strategic leadership affects organizational performance. Therefore, this study adds to the body of knowledge of Barney and Arikan (2001) who explained that the most important task for strategic leaders is effectively managing the firm's portfolio of resources which can be categorized into financial capital, human capital, social capital and organizational culture. It has also added to the literature that effective strategic leadership promotes organizational performance.

5.4 Recommendations

This study contributes to supplement the existing theory on strategic leadership and its effect on the performance of organizations. The findings of this study underline that strategic leadership is directly and indirectly positively associated with performance of commercial and financial SCs in Kenya. Commercial and financial SCs that want to improve their performance need to implement effective strategic leadership practices.

It is highly recommended for executives in commercial and financial SCs in Kenya to engage in the following high performance strategic leadership practices: Need to focus on determining corporate strategic direction verified in this study. This aspect will ensure the strategic competitiveness and performance of their organizations. There is also a need to focus on effectively managing the corporate resource portfolio which is the most important task for strategic leaders as it is categorized into financial capital, human capital, social capital and organizational culture. This aspect will enhance the competitive advantage of their organizations over their rivals.

Controls help strategic leaders build credibility, demonstrate the value of strategies to the firm's stakeholders and promote and support strategic change. Leaders are therefore responsible for the development and effective use of two types of internal controls, namely strategic controls and financial controls. From this study balanced organizational controls have not been highly emphasized and therefore it is highly recommended that commercial and financial SCs in Kenya should effectively apply balanced organizational controls to realize good performance

Strategic leadership practices need to be assessed and adapted in the commercial and financial SCs in Kenya. This has proved the case in the assessment of strategic leadership in this study. There is now need for strategic leaders in commercial and financial SCs in Kenya who can explore the opportunities in this turbulent environment.

5.5 Limitation of the Study

Although this study aimed to make a significant contribution to the body of knowledge on strategic leadership and its effect on performance, certain areas still need to be explored or expanded. Based on the outcomes of this research using only one respondent per SC was a limitation of this study, since it is possible that the use of more respondents per SC could have provided a different picture and result of the implementation of strategic leadership practices. This study is nevertheless a step towards providing insight in the implantation of strategic leadership practices in commercial and financial SCs in Kenya.

5.6 Suggestion for Further Research

This study dealt with the effect of strategic leadership on the performance of commercial and financial state corporations. Further studies can be undertaken to establish the effect of strategic leadership on the performance of regulatory state corporations in Kenya.

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APPENDICES

Appendix 1: Commercial and Financial State Corporations in Kenya

A. Commercial Corporations	B. Financial Corporations
1. Agro-Chemicals and Food Company	1. National Social Security Fund
2. Chemelil Sugar Company	2. National Hospital Insurance Fund
3. East African Portland Cement Company	3. National Bank of Kenya
4. Gilgil Telecommunications Industries	4. Kenya Tourist Development Corporation
5. Jomo Kenyatta Foundation	5. Kenya Roads Board
6. Kenya Airports Authority	6. Kenya Revenue Authority
7. Kenya Broadcasting Corporation	7. Kenya Re-Insurance Corporation
8. Kenya Electricity Generating Company	8. Kenya Post Office Savings Bank
9. Kenya Literature Bureau	9. Kenya National Assurance Co. (2001)
10. Kenya Medical Supplies Agency	10. Kenya Industrial Estates
11. Kenya Ordinance Factories Corporation	11. Industrial Development Bank
12. Kenya Pipeline Company	12. Industrial and Commercial Development Corporation
13. Kenya Ports Authority	13. Deposit Protection Fund Board
14. Kenya Power	14. Consolidated Bank
15. Kenya Railways Corporation	15. Agricultural Finance Corporation
16. Kenya Safari Lodges and Hotels	
17. Kenya Seed Company Limited	
18. Kenya Wine Agencies	

19. Kenyatta International Conference Center 20. National Housing Corporation 21. National Oil Corporation of Kenya 22. National Water Conservation and Pipeline Corporation 23. Numerical Machining Complex 24. Nzoia Sugar Company 25. Postal Corporation of Kenya 26. Pyrethrum Board of Kenya 27. School Equipment Production Unit 28. South Nyanza Sugar Company 29. Telkom Kenya Limited 30. University of Nairobi Enterprises and Services Limited 31. New Kenya Co-operative Creameries Ltd 32. Kenya Electricity Transmission Company 33. National Cereals and Produce Board	

Appendix 2: Questionnaire

This questionnaire is set in relation to the objective of the study.

SECTION A: GENERAL INFORMATION

Gender ☐ Male ☐ Female

Age ☐ Below 25 years ☐ 26-35 years ☐ 36- 45 years ☐ Above 45 years

Educational background ☐ Post graduate ☐ Graduate ☐ Professional studies

Length of service in the organization ______________________________

SECTION B: STRATEGIC LEADERSHIP

Please tick (√) in the chosen box. The ratings are: Very strongly agree = 5; Strongly Agree = 4; Agree = 3; Moderately agree = 2; and Slightly agree = 1

No	Aspects of strategic leadership	Very strongly agree	Strongly Agree	Agree	Moderately agree	Slightly agree
1	Corporate strategic direction is determined (developing long term vision of the corporate intent)					
2	Corporate resource portfolio is effectively managed (financial capital, human capital, social capital					

	and organizational culture)					
3	Effective organizational culture is emphasized (core values, symbols and ideologies shared and that influence how business is conducted)					
4	Ethical practices are emphasized (acting ethically when doing what is necessary to implement the corporation strategies)					
5	Balanced organizational controls are emphasized (strategic and financial controls)					

SECTION C: PERFORMANCE

Please tick (√) in the chosen box. The ratings are: Very strongly agree = 5; Strongly Agree = 4; Agree = 3; Moderately agree = 2; and Slightly agree = 1

No	Aspects of performance	Very strongly agree	Strongly Agree	Agree	Moderately agree	Slightly agree
1	Return on investment/ assets/ equity is high (above the industry average)					
2	Net profit margin/ return on sales is high (above the industry average)					

3	The corporation's market share (growth) is higher than those of the competitors					
4	Annual turnover is high (above the industry average)					
5	Annual employee turnover (not the retired or discharged staff) is high (above the industry average)					
6	Customer satisfaction is high (above the industry average)					