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THE INFLUENCE OF STRATEGIC LEADERSHIP ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN NAIROBI CITY COUNTY, KENYA

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A B S T R A C T

Purpose: There has been rapid growth and increase in number of SACCOs in Kenya. However, this has led to increased completion and the desire for small SACCOs to survive. This has led some if not all the SACCOs to find better ways of management. There has been a change in the management of SACCOs through the adoption of strategic leadership practices. This study set out to establish the influence of strategic leadership on financial performance of SACCOs in Nairobi.
Design/ Methodology/Approach: The study used a correlational descriptive design. The correlational descriptive design allowed the researcher to examine element at a given point in time. This design allowed analysis of respondents in producing insights into the effect of strategic leadership on the performance of SACCOs in Nairobi. Primary data was collected and used in this study. The data was collected through questionnaire. The questionnaire contained likert ratings. Drop and pick later method was used to administer the questionnaires.
Findings: The study concluded that all the five predictors of financial performance have significant positive effects on financial performance. It also concluded that corporate vision and mission exists in most firms and is therefore the most common strategic leadership measure. The study established that corporate vision and mission, developed human capital, effective organization culture, balanced organization controls and ethical practices, all had a significant influence on financial performance of SACCOs in Nairobi

Contribution to policy and practice: There is need for the SACCO's to keenly identify talent and leadership skills in hiring competent leaders with strategic leadership capabilities

Originality/Value: The study extends the literature on strategic leadership on financial performance of savings and credit co-operative societies in nairobi city county.

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BACKGROUND

Strategic leadership is grounded on a strong understanding of the complex relationship between the organization and its environment, which requires taking a broad view, but leaders face tremendous pressure to make short-term decisions (Beaty, 2010). Strategic leadership is the key factor in wealth-creation process for an organization (Daft 2011). Without effective strategic leadership the ability to create superior or satisfactory performance for an organization is likely to be greatly reduced. According to Daft (2011) success and competitive advantage of an organization is mainly determined by selection of the top leader. The top leader and associated strategic leaders have responsibilities for understanding the environment of their organization.Today, a notable challenge facing human resources practitioners is the challenge of attracting, retaining, motivating and developing talent (Deloitte, 2015). Unlike in the past where there were too many job seekers compared to available jobs, today, it is the opposite D'Amato and Herzfeld (2008. As organizations expand, focus should be on strategies that can attract and retain high-quality employees (Carrell, 1995) to match the increasing market demands. Tymon *et al.,* (2011) noted that, retaining talented employees is paramount to business operations since they already have firm specific skills and their voluntary exits may impact negatively on the firm.

There are several theories that support the concept of strategic leadership most of which are inclined towards personal traits and individual characteristics. One of the theories is Upper Echelon theory, which explains that top executives view their situations through highly personalized lenses due to the differences in their experiences, personalities, values among other factors. Top managers’ interpretation of the business and competitive environment impacts the strategic decisions which they come up with. The second theory is the transformational leadership theory which contends that transformational leaders pay attention to team building, inspiration and working together with workforces at various cadres of the business to achieve a transformation for above average returns (Lai, 2011).

Kenya is ranked number one in Africa and seventh in the world on the strength of savings in excess of Kshs 400 billion which is 35 per cent of total savings. Savings and credit co- operative societies (SACCOs) have Kshs 378 billion as deposits. According to Kiago (2017) Kenya boasts of about 15,000 registered co-operatives with a total of 12 million members. There are more than 320,000 employees and a further 1.5 million people engaged in small scale and informal enterprises funded by co-operative loans. The co- operative sector in Kenya is organized into service and producer entities that cut across the various sectors of the economy (Kiago, 2017). After liberalization and withdrawal of state protection of co-operatives to enable them compete with other financial institutions, the competition has been so fierce that some co-operatives in Kenya have not survived (Porvali & Linderg, 2009). According to a report by the Ministry of Industrialization and Enterprise savings mobilization in the SACCO subsector in Kenya has been growing at the average rate of 30% per annum (Kiago, 2017).

According to Burnes (2016) strategic leadership is the ability to anticipate, envision, maintain flexibility and empower others to create strategic change as necessary. Kjeilin (2015) defined strategic leadership as the desired direction taken by an organization through particular

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competent team of management that yields positive sustainable performance level and a viable future for the firm. Strategic leadership is the process that facilitates the performance of the top management team to achieve objectives through influence (Clegg et al., 2011). It is about how to most effectively manage a company's strategy-making process to create competitive advantage.

Co-operative societies in Kenya

Ogutu and Mbula (2012) define a Co-operative Society is an association of persons who have come together with a common purpose of pooling their resources together for mutual economic and social benefits. It is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise (Ogutu & Mbula, 2012).

Riley (2012) defines co-operatives as an association of person's on voluntary basis with mutual or common economic, social and cultural needs. Co-operatives are jointly owned and democratically controlled enterprises operating with laid down co-operative principles. Riley further defines SACCOs as member- based institutions that intermediate savings into loans, and are usually a special category of financial institutions. This enables the rural and poor population to deposit savings as well as take loans (Distler & Schmidt, 2011). Initially, SACCOs used to operate as welfare for employees as well as a financial institution and hence their existence was skewed towards revolving funds than profit making.

According to Wanyama (2017) co-operatives have survived the market forces and continued to grow in number, membership and income. Wanyama (2017) further argues that the market forces have triggered a structural transformation that has seen the fading away of inefficient co-operatives as others seek better service provision and become innovative for better performance. In order to initiate strategic planning and enhance performance in the co-operative movement, the Government of Kenya introduced the policy of good Corporate Governance. Corporate Governance emphasizes accountability, strategic leadership and stewardship among others (Ndunge, 2014).

Research Problem

The competition among co-operative societies in Kenya has increased significantly. This is because of the rapid changes in the environment such as increased innovation from players and high customer increase. Therefore, the high competition requires the societies to have strategic leadership that can increase their growth while managing their risks, leverage, and liquidity (McConnell, 2013). However, to have that effective leadership that can help respond to any challenges that may come up and capture opportunities both now and in the future, the societies are required to have sufficient team members with effective strategic leadership that can foresee, anticipate and give the right pathway to good performing and successful societies. The societies are also required to have effective teams to create an effective strategic management process in order to promote and sustain competitive advantage to overtake their rivals (McConnell, 2013). Several scholars have studied the concept of leadership in different contexts. Mahdi and Almsafir (2013) carried out a research on the role of strategic leadership in building sustainable competitive advantage in the academic environment. In their findings they revealed that a

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significantly positive effect is present, indicating that sustainable competitive advantage is improved when strategic leadership is applied. However, this was not within the Kenyan context. White and Moraschinelli (2014) carried out a research on the Pursuit of strategic leadership. They concluded that the important components of a company's pursuit are their leadership, innovative nature and the relationship management. This study was conducted in Indonesia and not Kenya.

In Kenya, Thagana (2013) did a study on the Intensity of strategic leadership and Competitive Advantage of Commercial Banks in Kenya. Okelo (2014) studied the influence of strategic leadership on the performance of state parastatals in Kenya. In his research, he concluded that competitive advantage can be sustained if funds could be internally mobilized to improve on service delivery through adoption of modern technology, reduced costs of operation, employment of competent staff and engaging in aggressive marketing. However, this study was not within the context of SACCOs.

Ndunge (2014) did a study on Strategic Leadership and Change Management Practices at the Kenya Wildlife Service. He concluded that respondents noted change was undertaken since management provided strategic leadership as well as support to the process. Chepkirui (2012) carried out a research on The Role of Strategic Leadership in Strategy Implementation at the Agriculture Development Corporation (ADC) in Kenya. The findings she obtained from the study showed that strategic leadership plays a very critical role in the effective implementation of strategy at the corporation. Despite this fact, studies that have been done on strategic leadership (Almsafir 2013; White & Moraschinelli 2014; Thagana 2013; Okelo 2014; Ndunge 2014; have been in different contexts. This study therefore aims at examining the influence of strategic leadership on performance of SACCOs in Nairobi by answering the following question; how has the practice of strategic leadership impacted on the performance of SACCOs in Nairobi?

Study Objectives

The objective of the study is to find out the influence of strategic leadership on performance of savings and credit co-operative societies in Nairobi.

LITERATURE

Components of Strategic Leadership

There are six components of strategic leadership. The first component of strategic leadership consists of determining the organization's vision and mission. Leaders must articulate a clear and realistic statement about why the organization exists. This requires exploiting and maintaining core competencies which give the organization an edge over their rivals (Slawiski, 2017). Vision and mission statements are statements of intent by a company that shows their long-term goals and objectives. Strategic leadership shapes organization mission and vision.

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. Core competencies are key attributes possessed by leaders that enable them to carry out their

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activities professionally. These include integrity, professionalism, punctuality, honesty and commitment.

The second component is the ability of the leader to exploit or maintain core competencies. Slawiski (2017) proposes that leaders must identify and continuously apply core competencies. (Burnes, 2016) defines core competencies as those capabilities that are critical to a business achieving competitive advantage. They add that over time companies may develop key areas of expertise, which are distinctive to that company and critical to the company's long-term growth. These areas of expertise may be in any area but are most likely to develop in the critical, central areas of the company where the most value is added to its products (Burnes, 2016).

The third component according to Slawiski, is that leaders need to develop human capital. Human capital refers to skills set obtained by staff from training or experience acquired on the job (Jorge 2013). Most companies fail to achieve the desired level of performance due to lack of competent leadership. Human capital describes the skill sets and competence of work force at top management level of the organization. Well- developed human capital is the foundation of strategic leadership in SACCOs.

The fourth component entails sustaining an 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.

The fifth component lays emphasis on ethical practice. Strategic leaders should always ensure that their actions conform to the moral standards set by the society. 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 (Boal, et al, 2015). The sixth and final component is about establishing balanced organizational controls. Decisions made by leaders should strike some balance in terms of controls (Slawiski, 2017). Controls are necessary to help ensure that firms achieve their desired outcomes (Adair, 2010). These are formal information based procedures used by managers to maintain or alter patterns in organizational activities.

Strategic leadership and performance

Leaders play a pivotal role in the outcomes of organizations and their continued success (Jorge, 2013). Leadership interacts and determines nearly all factors of strategy implementation, making it a very critical factor in the performance of the organizations (Abishaul, 2017). Leadership is most critical joint in the various units of the organization. Strategic leaders develop the vision and mission of the organization and serve as an important link between the factors of strategy implementation. Financial performance is a key indicator of how effective the leadership of the organization is.

Performance in an organization is the measure of the output or product out of a process that involves employment of resources through a value creation chain during a specified time of engagement (Ireland & Hitt 2015). Financial performance can be indicated through profitability, return on investment and return on assets. Customer satisfaction is another critical indicator of the performance of organizations.

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A study by Ogutu and Mbula (2012) established that multinational corporations in Kenya have adopted a number of strategies which include innovation — new technologies, better quality products and services — quality improvements, differentiation - specialization, cost cutting measures - efficiency, excellent customer service — customer focus, strategic alliances and joint ventures. The Co-operative movement can therefore greatly benefit by benchmarking with such organizations. Okelo (2014) noted that strategic leadership played a key role in shaping the strategic direction and this contributed towards improving the firm's performance. Through strategic leadership, an organization needs to have a clear picture of where the organization ought to be in the next 5-10 years. The firm must have a clear plan on how to turn strategic plans into reality and achieve results.

MATERIALS AND METHODS

The study used a correlational descriptive design. The correlational descriptive design allowed the researcher to examine element at a given point in time. This design allowed analysis of respondents in producing insights into the effect of strategic leadership on the performance of SACCOs in Nairobi. The target population consisted of all the sixty-three licensed deposit taking SACCOs with their headquarters in Nairobi. These are the most established and organised SACCOs hence they have a formal structure. Due to the small number of the population, a census survey of all the sixty-three licensed deposit taking SACCOs in Nairobi was used in the study.

RESULTS

Regression Analysis

Table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.768	0.590	0.610	0.60038

As shown in Table 1, implies that 59% of financial performance among SACCOs in Nairobi is explained by corporate vision and mission, developed human capital, effective organization culture, balanced organization controls and ethical practices. The other 41% is explained by other factors not considered in this model. Therefore all the five components of strategic leadership can collectively be used to predict financial performance among SACCOs in Nairobi.

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Analysis of variance

Table 2 ANOVA Results

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	.*72	5	.114	31.157	**0.000**
	Residual	19.465	54	0.260		
	Total	**20.036**	**59**			

Table 2 presents that the variable under study are significant at 0.001, ($p<=0.05$). this indicated that the models is good enough to be tested with the variables of corporate vision and mission, developed human capita, effective Organization culture, balanced organization controls and ethical practices. The F statistics (31.187) shows that the value was high enough to support the R square value in the regression model.

Regression Co-efficient

Table 3 Regression Results

	B	**Std. Error**	**t**	**Sig.**
(Constant)	3.644	1.304	6.371	**0.000**
Corporate Mission	0.043	0.24	5.415	**0.000**
Developed Human capital	0.11	0.243	-0.496	**0.000**
Effective organization and culture	0.189	0.225	3.791	**0.000**
Organization Balance	0.001	0.193	5.908	**0.000**
Ethical practices	0.042	0.250		

Y = 3.640 + 0.043 Xi + 0.0 l1 X2 + 0. l89X3 + 0.001 Xi + 0.042Xi + E

From table 3 above all the variables are significant at less than 0.05 level of significance. This shows that all the variables are retained and incorporated in the resultant regression model (equation). This means that a unit change in corporate mission and vision lead to a corresponding change in financial performance by 0.043 units similarly, a unit change in human capital leads to a corresponding change in financial performance by 0.01 I units. At the same time a unit change in effective organizational culture leads to a corresponding change in financial performance by 0.189 units. A unit change in balanced organization controls leads to corresponding change in financial performance by 0 001 units. Finally, a unit change in ethical practices leads to a corresponding change in financial performance by 0.042 units.

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CONCLUSION

The study concludes that SACCOs operating in Nairobi are faced with stiff competition due to increase in their numbers in the recent past. This calls for a robust and strategic approach to leadership and top management of the SACCOs. The study concludes that SACCOs are increasingly adopting strategic leadership practices to beat competition and improve financial performance. All the firms surveyed were found to be practicing the five components of strategic leadership in one way or another. The study further established that all the practices have an impact on financial performance of the SACCOs surveyed. With a coefficient value of 0.189 (sig=0.033), effective corporate culture was found to be the most dominant and common strategic leadership practice. This implies that all SAACOs in Nairobi have a well-established and effective corporate culture that promotes cost reduction and financial accountability. This implies that the leadership styles, norms, belief and values of the SACCOs were right. Effective corporate culture enables realization of set objectives leading the desired financial performance. Balanced organization control was the least practiced element of strategic leadership with a co-efficient value of 0.01 (Sig = 0.009). All the VIF values were between 1 and 10 indicating lack of collinearity

Areas for Further Research and recommendations

This study makes the following recommendations:

There is need for SACCOs to change and move away from traditional management techniques and adopt modern methods of management. The study recommends appropriate policy measures to promote the growth of SACCOs and protect small SACCOs from collapse due to stiff competition. Proper disciplinary measures should also be taken against senior staff under whose leadership SACCOs collapse leading to loss of members' revenue. This study was mainly concerned with Savings and Credit Cooperative Societies in Nairobi. However, there are other categories of cooperative societies that do exist. It would be important for future researchers to conduct a study on any of the other categories of cooperative societies. The study focused on financial performance. However, there are other aspects of performance other than financial performance which requires further research.

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