SOCIALLY RESPONSIBLE INVESTING AS A STRATEGIC LEADERSHIP AND ORGANIZATIONAL PERFORMANCE: A CASE OF NATIONAL BANK OF KENYA

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ABSTRACT

Improving organizational performance which entails using organizational resources correctly to achieve set goals and objectives is an important aspect for every organization that seeks to survive in the crowded and competitive market. This has led to banks and other organizations adopting a strategic leadership style to ensure they perform at the optimum. The focus of this investigation was to establish the association between human capital development and how the NBK performs in the market. NBK is a registered commercial bank in Kenya with a countrywide branch network. NBK has continued to perform poorly both in terms of profits and customer deposits even when other banks record improved performance. It was conducted within the national bank of Kenya by involving the head office and 9 branches in the coast region. The study was guided by the resources-based view (RBV) and Transformational leadership theories. The research employed a descriptive survey design. To actualize this, the researcher conducted a census using an interview guide to collect data from 18 senior managers at the national bank head office located at the National Bank Building Harambee Avenue, Nairobi. The study also used a self-administered questionnaire with predetermined responses requiring respondents to pick only one item per question. The tool was administered to 36 branch management staff in the coast region (Malindi, Kilifi, Mtwapa, Nyali, TUM, Bondeni, Changamwe, Nkrumah, and Ukunda). The study registered an 80% return rate which is acceptable for analysis. Analysis for the study data was done using frequencies, percentages, mean and standard deviation while the relationship between study variables was tested using bivariate correlation analysis and multiple linear regression analysis. The study analysis show that results of analysis showed that human capital development is statistically significant to organizational performance at ninety-five percent level of confidence. Based on the findings of this study it is recommended that the organization should continuously develop its human capital to make the bank increase its performance in the market.

Keywords: Strategy Creation, Human Capital Development, Organizational Ethical Practices, Organizational Resource Control, Organizational Innovations and Performance.

INTRODUCTION

Organizations perform an integral function in human society because they are the structures through which it functions (Witts, 2016). Organizations are thus compared to an engine that drives the economic, social, and political progress of any nation (Hashem, 2015; El-Masri, Orozco, Tarhini, & Tarhini, 2015). To perform these important functions, organizations are required to achieve and report results against defined medium and long-term goals and objectives. This has led to the concept of Organizational performance (OP) which measures the level to which organizational goals and objectives are accomplished or the level of change in the state of the organization judged by different constituencies (Singh, Darwish, & Potocnik, 2016; Witts, 2016; Makkar & Singh, 2013). According to Almatrooshi, Singh, and Farouk (2016), the success of any organization depends on its effectiveness in implementing strategies and tactics to attain institutional goals. In analyzing success, OP usually comprises three areas namely; financial performance, product market performance, and return on investor capital (Almatrooshi, Singh, & Farouk, 2016).

Studies on organizational performance contend that it does not just happen but is a product of leadership strategies which is the capability of organizational managers to recognize, plan and guide the members and resources towards attaining organizational outcomes (Conner-Boyd, 2019; Gupta, 2018; Jing & Avery, 2016). Corina, Liviu, and Roxana (2011) observe that strategic managers have a significant impact on the OP because they determine organizational objectives, encourage employee behavior towards the attainment of the set objectives, and influence organizational maintenance and culture. Several studies have been done on strategic leadership in the banking sector and its significance. According to Kolzow (2014), strategic leadership in the banking sector has to do with focusing and becoming involved in matters that are of importance to the customers that the organization serves. According to the scholar, the performance that results from strategic leadership is the realization of organizational goals.
To ensure profitability, banks have adopted the strategic leadership style which has gained wide acceptance in both public and private organizations worldwide as a leadership style where organizational leaders define the strategy or direction they wish to take in the market and make decisions on what resources are needed to implement and actualize the agreed strategy (Hussein & Gichinga, 2016; Maholtra & Hinings, 2015; Li, Zhan, & Lu, 2016). From the RBV perspective, strategic leadership engages in strategic planning for the organization by determining the direction of the organization by evaluating its current position and devising ways in which it can pursue actions to improve its performance or claim a dominant position in the market.

According to Hussein and Gichina (2016), leaders carry out strategic planning identifying where they want the organization to be in the next one year or more and how it's going to get there plus the yardsticks of measuring performance and failures thereof. This was confirmed by Ng'ang'a (2018) who examined how strategic planning impacted on the performance of the tourism sector, she and established that strategic leadership and planning had a positive correlation on performance. Li, Zhan, & Lu, 2016 on the other hand observe that organizational leadership has to be flexible to swiftly and efficiently react to market changes for it to bring organizational success. Without success or performance which consists of achieving goals that were set

The foregoing discussion confirms that strategic leadership is more than sitting and visioning the future, but anticipating, creating, and guiding change, creating commitment in the organization membership and leadership at all levels thereby bringing about the success of organizational strategies (Kolzow, 2014; Kriger & Zhovtobryukh, 2016; Makkar & Singh, 2013).

Statement of the Problem

The banking sector in Kenya operates in an environment characterized by stiff competition, strict regulations, and interest caps by the CBK which has seen some banks report low performance (Mujuka, 2018). But while many banks record improved performance despite the challenging business environment, a review of records shows that NBK has continued to perform poorly in the Kenyan banking sector both in terms of profits and customer deposits. For example, the banks' net earnings in 2017 fell from 521 to 138 million shillings compared to the 2016 period (Business Daily, 2017). Further analysis points to low return on investment where NBKs return on average common equity (ROACE), in 2017 was the lowest in Kenya at 0.5%. ROACE is a measure that expresses a percentage of earnings an organization gets from the funds invested by shareholders. The bank also reported the lowest deposits per branch at 1.3 billion, 5.3 billion less compared to the bank which had the highest deposit per branch at 6.6 billion. The report further shows had the highest cost to income ratio at 93.7% (Cytonn Investment, 2017). This trend on low performance was also reported in 2019 where a review on loan performance of banks in Kenya showed NBK had the biggest bad loan book with Gross Non-Performing Loans (NPLs) increasing by 8.8% to KShs. 31.5 billion in the first quarter of 2019, from KS's. 28.9 billion in the first quarter of 2018 (Cynton Investment, 2019). The issue of ethical practice has also been raised concerning NBK. In its annual report for 2016, the bank stated that it had lost about 300 million shillings through fraud in 2016 alone (Business Daily, 2017).

Establishing the link between strategic leadership and performance at NBK is important to bank management, internal stakeholders such as employees and external stakeholders who include the academia KBA and the CBK. Indeed, performance of banking sector has attracted several enquiries internationally, within the African continent and in Kenya. A study by Bii, Masaba, Ombaba, and Nyambega (2016) at Equity bank confirmed that strategic leadership within equity bank enabled the bank to provide of an assortment of banking products, usage of cutting edge technology, and development of human resource (competent employees) had a direct correlation to performance. The population involved in the study was not representative of those involved in the implementation of the strategy within bank branches. Therefore, generalizing the findings for an organization like NBK is not possible.

Another study by Ndungu and Bosire (2020) on whether strategic leadership was employed in Kenyan banks and whether it affected on the profitability of Kenyan commercial banks listed on the NSE. Study findings established a link between strategic leadership and performance of the banks that were sampled. The study which involved 33 commercial banks employed a descriptive survey design and relied on secondary data (audited financial accounts) for analysis thus presenting a methodological gap. A similar finding was documented by Oswago (2018) who sampled 358 respondents from senior management in head offices of commercial banks in an attempt to study the relationship between strategic leadership and how commercial banks performed in the market. The study mainly collected quantitative data. This limited the data collection since the researcher could not seek clarifications on the cause and effect of strategic decisions. The current study will analyze both quantitative and qualitative data.

The above studies that were done strategic leadership and commercial banks' performance in Kenya have mainly focused on banks in Nairobi City County. Further analysis has also revealed a gap in the research methodologies applied in the studies. These analyses present gaps both methodology and context. This study sought to address these gaps by analyzing performance NBK branches at the coastal region of Kenya against leadership strategies and tactics employed by the firm.

Objective of the Study

To investigate the influence of strategic leadership on the performance of the national bank of Kenya.

Specific Objective

To assess the effect of human capital development on the performance of the NBK

THEORETICAL REVIEW

Resource Based View

The RBV was put forth in 1991 by Barney Jay in an academic study entitled "Firm Resources and Sustained Competitive Advantage". The scholar proposed that organizational performance is dependent on its resources (Almarria & Gardiner, 2014). According to RBV organizational performance is dependent on internal resources, not on external forces and market conditions (Kouzes & Posner, 2012). Therefore, reviewing an organizational internal resources and strategies available are important in understanding performance. Organizational resources in the context of this study refer to a collection of intangible and tangible asserts that an organization employs in its strategy (Cameron, 2011). According to Madhami (2014) intangible resources include human resource (employees), organizational image and innovations while tangible resources within the organization would include organizational finances, physical and technological resources.

The theory posits that for an organization like the NBK to perform competitively and sustainably in the marketplace, its resources must fulfill 'VRIN' criteria. According to this criterion resources must be Valuable (V) to provide strategic value to the organization. A valuable resource is one that helps the organization to exploit opportunities in the market place (Santos & Brito, 2012; Caldwell & Anderson, 2017). From the lens of this theory valuable resource must lead to increased customer base, low cost of operation and high profit margins. Besides being valuable, organizational resources also need to be Rare (R) in the market place or among competitors. Resources that are common or possessed by different commercial banks would therefore not provide a competitive advantage to NBK because they would lack uniqueness. Resources that add value should be hard to Imitate by competitors (I). There should also be Non-substitutability (N) of resources, meaning competition in the industry aren't able to achieve a similar level of output by substituting resources with other substitutes (Madhani, 2014; Carpela & Gordon, 2011; Porter, 2017). An organization is therefore viewed as a bunch of resources which can be combined to distinguish an organization from competitors and make it perform better in the market place (Perera, 2020; Walder, 2017). Porter (2017) confirms the resources based view of the firm by averring that formulating a strategy that prioritizes and organizes internal resources confers an organization ability to improve performance.

Analyzing strategic leadership from the lens of the RBV looks at how organizational leaders are able to effectively utilize organizational resources. According to Caldwell and Anderson (2017) leaders can make their organizations to perform better than their competitors by changing resource management and usage. This is done through strategy creation, developing human capital through continuous learning, encouraging ethical practices and carrying out business in an ethical manner, controlling organizational resources and being innovative in the manner of combining resources to achieve organizational strategy (Cameron, 2011; Kouzes & Posner, 2012).

Transformational Leadership Theory (TLT)

TLT was proposed by James McGregor in 1978, the theory posits that transformational leaders are agents of change, led by values, are keen on team building and are visionary in nature. Such leaders therefore craft an organizational vision for members/groups and lead change (Barth-Farkas & Vera, 2014; AbdulLatif & AbdulManaf, 2019; Bawa, 2017). The TLT views successful strategic leaders as excellent role models whose actions are emulated their followers. They also inspire by creating a common vision which guides employees who believe that they can surpass set goals (Barth-Farkas & Vera, 2014).

Transformational leaders are considered to be effective are able to swiftly and effectively react to any change in the environment(Li, Zhan, & Lu, 2016).This makes the leaders strategic and flexible because they are able to develop strategies, coordinate organizational resources and make it more competitive and realize effective business performance (Chen, 2010). Applying the TLT in this study will help in illuminating how management at NBK supports organizational growth through human capital development and organizational strategy creation which are among the variables to be measured in this study.

Empirical literature Review

Human capital development and organizational performance

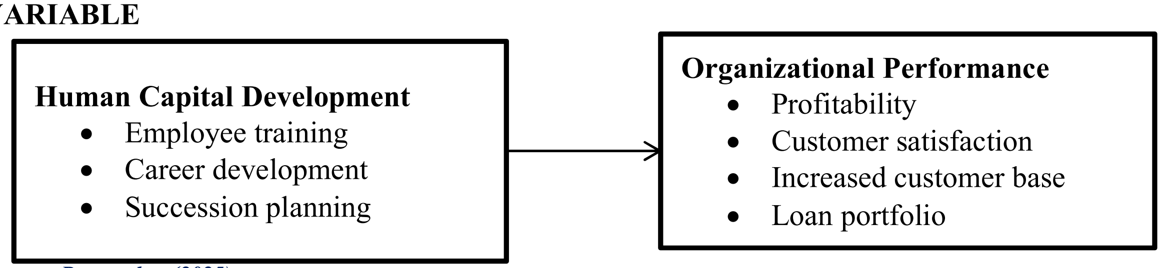
Okumu (2014) conducted research on commercial banks in Mombasa County, Kenya to examine how employee organizational commitment is affected by human resource development. The study employed a cross sectional survey design and involved 36 respondents drawn from 36 commercial banks in Mombasa County. The researcher received a 92% response rate (34 out of 36 questionnaires). Study findings showed that strategies adopted by banks towards building human capital were more for internal use inside the banks rather than all-inclusive growth of the staff as a productive member of the society. The study was conducted within the banking sector; however, the sampling method was not representative of the banking staff in charge of human capital development and did not involve individuals who are beneficiaries of human capital development. This study therefore involved senior staff at the head office and officers in charge of implementing human capital development programs.

Elsewhere, Odhon’g and Omolo (2015) studied the influence of employee development on organizational performance of 42 registered pharmaceutical companies in Kenya. Employee education, training, management of knowledge, and development of skills served as the study's independent factors. A total 200 respondents were sampled in the study which used self-administered questionnaires for data collection. Descriptive and inferential statistics were employed to analyze the study's data. Their research's conclusions showed a significant link between organizational performance and the use of human capital. From the findings, elements of human capital investment, namely: training, education, knowledge management and skills development adequately were identified to have a major influence on how a firm performs in the market. The above study involved pharmaceutical firms, but the current study focused on the banking sector.

In a related study conducted in Somalia by Abdulle (2016) to examine how developing employees impacted on organizational in a university setup. The study used a descriptive survey design with a sample size of 25 participants, including deans, academic and non-academic personnel. Data for the study was collected using self-administered questionnaires. This was later analyzed using descriptive statistics with the help of SPSS. Study findings indicated that human capital played a crucial role on the organizational performance at Benadir University in Mogadishu, Somalia. This was statistically demonstrated by the level of satisfaction of study respondents (3.8), and a standard deviation (0.78). This led to the conclusion that strategic leaders who develop human capital within the organization by equipping employees with requisite skills always contribute to organizational development. The above study has some limitations since it involved a single organization with a very small sample size which limits generalizability of its findings, further, the study was done within a learning institution. This study was conducted in a banking institution with a bigger sample size.

Figure 1: Conceptual Framework

INDEPENDENT VARIABLE **DEPENDENT**
VARIABLE



Source: Researcher (2025)

Research Design

This study adopted a descriptive design. The descriptive study design has been chosen because it analyzes data from a population at a single juncture and can therefore be used to measure determinants of organizational performance and describe features of the population under study (Allen, 2017). Further, the design has been described by some scholars as “a non-intrusive study that yields data from many respondents while maintaining anonymity” (Hashem, 2015; Hansen & Machin, 2018).

Target Population

The population for this study were 45 managers of the NBK. This included 9 senior managers namely; chief finance officer, director retail banking, marketing corporate communication manager, director credit, director internal audit, director human resource, director information and communication technology, director risk and the director of Islamic banking based at the NBK Building Harambee Avenue, Nairobi. It also targeted 36 management staff from 9 NBK branches in the coast region of Kenya. These included 4 managers (branch manager, branch operations manager, assistant operations managers and business bankers) from each the 9 NBK branches in Malindi, Kilifi, Mtwapa, Nyali, TUM, Bondeni, Changamwe, Nkrumah and Ukunda branches. The researcher chose this population because the managers at the head office are the ones in charge of formulating policies and strategies for the organization while branch management is concerned with the implementation of strategies that determine organizational performance. As outlined by Mugenda and Mugenda (2003), in research, a population means "an entire group of individuals, events, or objects having common observable characteristics"

Sampling Design

This study carried out a census on all the 45 managers comprised of 9 managers the NBK head office in Nairobi and 36 branch managers in the 9 branches in coast region of Kenya. The researcher chose to conduct a census due to the small population size. The study chose to interview senior and line management because it is senior managers who ones involved in strategy creation, implementation, and evaluation within the organization. The 45 managers were selected based on their availability and the strategic positions they hold in the organization.

Data Collection Instruments.

The data collection process involved only primary or raw data to be obtained by interviewing 45 managers at NBK, these included 9 senior managers at NBK headquarters namely the chief finance officer, director of retail banking, marketing corporate communication manager, director of credit, director internal audit, director human resource, director information and communication technology, director risk and the director of Islamic banking. The remainder 36 respondents will be picked from the 9 NBK branches in the coastal region whereby the researcher. Primary data used in the study was both qualitative and quantitative. Quantitative data was obtained using closed-ended questions with pre-determined responses administered to branch managers and branch operations managers at the 9 regional branches in the coastal region of Kenya. While qualitative data was obtained using open-ended questions administered to senior managers at the head office.

Data Collection Procedure

The data collection procedures involved getting authorization letter from graduate school Kenyatta University and authority from NACOSTI in order for the researcher to proceed with data collection. The respondents from NBK were contacted and briefed on the purpose of the study. The respondents were allowed to sign a consent form before copies of the questionnaires are distributed to them.

Data Analysis and presentation

After data collection the researcher first coded all the closed-ended questions, the data was then keyed into the computer for analysis using the Statistical Package for Social Scientists (SPSS) software for windows). The output derived from the data analysis is in the form of tables. The qualitative data obtained from the open-ended questions was coded into themes according to each aspect covered in the questionnaire then analyzed using content analysis. Taylor, Sinha, and Ghoshal (2006) stated that obtaining meaningful information from study data is dependent on application of appropriate methodology for data collection and analysis.

This study used regression analysis to determine the relationship between variables under study. Researchers used regression analysis since it is effective in determining a statistical relationship between two or more variables (Kothari & Garg, 2014). Using this analysis, firms' performance (dependent variable) was regressed against Human capital development. The equation is expressed in the following multiple regression model;

$Y = \beta_0 + \beta_1 X_1 + \varepsilon \ldots$

Where

Y = organizational performance

β_0 = Constant

X_1 = Human capital development

ε = error term

$\beta_1 X_1$————————— Regression coefficient

RESEARCH FINDINGS AND DISCUSSIONS

Descriptive Statistics

Table 1: Human Capital Development Descriptive Statistics

Items	Mean	SD
Employees at NBK have the suitable education to fulfill their jobs	3.52	1.278
Our Company carries out training frequently	3.94	1.059
NBK encourages skill acquisition through job rotation	4.12	.927
NBK creates time for our staff to advance their education	3.58	1.146
Our organization has a well laid out organizational succession plan	4.06	.827
	3.84	1.05

Source: Field Study (2025)

From table 1 above analysis, findings indicate that human capital development had an impact on organizational performance with an aggregate of 3.94 with a men deviation of 1.05. This is an indication that through sound human capital development programs the NBK created a favorable environment for employees to perform better thereby improving the general organizational performance. This finding confirms an earlier study by Okumu (2014) who conducted research in commercial banks in Mombasa County, Kenya to evaluate how employee organizational commitment is affected by human resource development. The study established that strategies adopted by banks towards building human capital contributed more to organizational performance than on other external factors.

Findings further show that NBK encourages skill acquisition through job rotation (M=4.12, SD=.927), the NBK has a well laid out organizational succession plan (M=4.06, SD=.827). While, employees at NBK have the suitable education to fulfil their jobs (M=3.52, SD=1.278). These findings indicate that the bank had adequate plans for its staff to develop and contribute to the overall performance of the organization.

Analysis of qualitative data for the study established that the bank had regular trainings for its staff. This confirms the findings from the quantitative analysis.

Table 2: Organizational Performance Descriptive Statistics

Items	Mean	SD
Introduction of new products increased profitability	3.85	.939
Customers are satisfied with our products	3.82	1.014
Customer complaints are handled in time	3.52	1.034
NBK has witnessed increased customer base in the past year	3.06	1.298
	3.56	1.07

Source: Study Data (2025)

Table 2 above presents study respondents feelings regarding organizational performance at the NBK. From the analysis implementation of organizational strategy was found to have an influence on organizational performance at the NBK, aggregated at 3.56 with a standard deviation of 1.07. This was confirmed by qualitative interview data that showed that the bank had posted a pre-tax profit of 828 million in the year ending December 2022. The bank operating income also increased by 13%v as compared to the previous year (2021). According to Hussein and Gichina (2016), leaders carry out strategic planning identifying where they want the organization to be in the next one year or more and how it's going to get there plus the yardsticks of measuring performance and failures thereof.

Introduction of new products increased profitability in the bank (M=3.85, SD=.939), Customers are satisfied with our products (M=3.82, SD=1.014). Customer complaints are handled in time (M=3.52, SD= 1.034). This witnessed an increased customer base in the past year (M=3.06, SD=1.298). According to Almatrooshi, Singh, and Farouk (2016), the success of any organization depends on its effectiveness in implementing strategies and tactics to attain institutional goals.

Correlation Analysis

The researcher created a correlation matrix between the variables utilizing the SPSS software. The results are summarized in Table 3.

Table 3: Correlation Results

	Bank performance	Human capital development
Bank performance	1	
	33	
Human capital development	$.434^{**}$	1
	.006	
	33	33

Source: Field Data (2024)

The findings as given in Table 3, indicates the relationship between human capital development and how it related to organizational performance. It indicates a significant moderate correlation with a Pearson's r value of 0.434 and p-value of 0.006.

Regression Analysis

Multiple regressing analysis was computed to derive the relationship between the variables.

Table 4 Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.616[a]	.579	.544	.434

Source: Field Study (2025)

The model's summary and the percentage of total variation in the dependent variable that the regression line can explain are shown in table 4.4.1 above. The statistical measure R2, also referred to as the coefficient of determination, measures how closely the data match the fitted regression line. From the model variation in the response data is 0.579 (57.9%). Further, the adjusted R square value is 0. 544 (54.4%), which is an indication of how much the use of human capital development, resource control, ethical practices, organizational innovation and strategy creation affected organizational performance at the NBK.

Analysis of Variance (ANOVA)

The ANOVA test was done and the results shown in Table 5.

Table 5: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.875	5	1.719	4425.648	.000[b]
1	Residual	.017	27	.000		
	Total	6.892	32			

a. Dependent Variable: Bank performance

b. Predictors: (Constant), Strategy Creation, Organizational Innovation, Resource control, Ethical practices, Human capital development

Source: Field Study (2025)

The ANOVA analysis indicate that the study regression model sufficiently fitted the observed data set of with the value of F-statistic as 4425.648 at a significance level of 0.000. This is less than the p-value of 0.05 which has been accepted by scholars as the acceptable level for making decisions and conclusions at 95% confidence level.

Regression Coefficients

The regression output was done and represented in Table 6.

Table 6: Regression Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.138	.037		2.675	.010
Human capital development	.327	. 018	.350	17.875	.000

a. Dependent Variable: Bank performance

Source: Field Study (2025)

Organizational performance = 0.138 + 0.327 Human capital development+ ε

In the regression table, the objective of the study was to assess the effect of human capital development on the performance of the NBK. The results reported that human capital development is statistically significant at β=.327; t = 17.875; p = .000. The lower and upper limits of the confidence interval are .290 and .364 respectively confirming that the estimated beta coefficient for strategy formulation actually lies within the interval. These results indicate that at 95% level of confidence strategy formulation has a positive contribution to performance of the NBK. The findings confirm that an increase in capital development causes an increase in performance. This confirms earlier findings that well developed organizational members work together with leaders who carry organizational vision (Madsen & Walker, 2015).The study therefore concludes that human capital development had an impact on the bank performance.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Based on the findings, the study concludes that there is a significant relationship between human capital development and performance of commercial banks. Further the study predicts that strategies employed to develop human resources that commercial banks can engage in human capital development as a strategy to improve organizational performance.

Recommendations

From the findings, the study recommends that the organization should continuously develop its human capital to make the bank increase its performance in the market.

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