



Strategic Direction and Organization Effectiveness of Savings and Credit Cooperative Societies in Kenya

Justus Bundi Miriti,^{*1} Thomas Anyanje Senaji,² Nancy Gacheri Rintari,³ Wilson Nzengi Muema.³

Kenya Methodist University^{*1,3}

The East African University²

Corresponding author: miritijb@gmail.com

<https://orcid.org/0000-0002-8422-1059>

Article history

Received: July 17, 2020

Received in revised form: September 15 2020

Accepted: September 20, 2020

Available online: <https://research.lukenyauniversity.ac.ke/lumj-journals/>

ABSTRACT

Organizations of all types have an imperative to post performance results that are satisfactory to their stakeholders. To achieve such results, organizational leadership is important since it determines the direction the organization takes. However, some organizations post poor output and this has attracted attention from scholars in order to establish the causes of poor output. Cooperative societies play an important role in socio-economic development of a country through economic empowerment and poverty alleviation. The study examined strategic directions of organizations and the prediction of organizational effectiveness through a quantitative survey of 133 senior managers in Savings and Credit Cooperatives (SACCOs) across Kenya. Drawing from the transformational leadership theory and strategic leadership model, the study respectively assessed vision

and business development (as observed through exploration of opportunities). Findings of the study show that whereas business development significantly increased the probability of organizational effectiveness ($B = 1.189$, $Wald = 14.706$, $\exp(B) = 3.284$, $p < .001$) organizational vision did not ($B = .055$, $Wald = .041$, $p = .839 > .05$, $\exp(B) = 1.056$). However, both vision and business development had a positive significant ($p < .05$) linear relationship with organizational effectiveness. Study results show that the managers were slightly more visionary than they explored and pursued more business opportunities. It is recommended that managers of SACCOs emphasize strategic leadership through active exploration of new markets and recognition of potential new clients (strategic leadership) even as they maintain clarity of vision (transformational leadership) for their organizations.

Keywords: Strategic direction, Organizational effectiveness, Kenya

1.0 Introduction

The essence of strategy is to ensure that organizations perform to the expectations of its stakeholders. To achieve such results, leadership of these organizations is important because it has implications in clarifying the direction that the organization takes. In this regard, strategic leadership continues to draw interest from practitioners and scholars alike as an area of practice and further empirical investigation. One of the conceptualizations of strategic leadership comprises strategic direction, human capital focus and strategic control. While strategic direction involves vision and exploration (for new businesses opportunities), human capital focus is predominantly a transformational leadership concern, namely “consideration: while strategic control is a strategy concern, notably effective exploitation of opportunities through internal organizational focus on efficiency.

Strategic leadership (SL) has become important for organizations due to heightened competition and an ever-discerning customer. This leadership ensures that there is a balance between internal organization consideration and the demands of the external environment; and between the need for exploitation of available opportunities while exploring other opportunities as they unfold. Through strategic leadership, organizations can remain competitive in an ever-increasingly competitive operating environment (Dursema, 2013). This type of leadership draws from the strategic leadership model which essentially combines leadership and strategy. While leadership is about clarifying direction through vision, strategy is about focusing on both the internal and external factors that face the organization. From the external environment perspective strategy is concerned with exploring for new opportunities through business development

initiatives and actions while effective exploitation of existing opportunities is the internal focus of strategy. With regard to leadership, the focus is looking beyond the present and providing direction through a vision, communicating the vision and cultivating buy-in from the followers. In this study two constructs were used to measure strategic direction with a dimension of strategic leadership and organizational effectiveness.

It is noted that while strategy is about the tension between the internal organization and the external environment demands environment, leadership is about maintaining stability at the present moment, exploitation and having a focus on the future exploration and vision. According to Davies and Davies, (2014, p. 30), “strategic leaders have the organizational ability to be strategically orientated; translate strategy into action; align people and organizations; determine effective strategic intervention points; and develop strategic competencies”. They also “display a dissatisfaction or restlessness with the present; absorptive capacity; adaptive capacity; and wisdom” (p. 30).

Further, transformational leadership influences change in individuals and collective systems in communities and organizations (Ogola, 2019). This leadership approach creates and builds valuable and positive transformation on the followers with the purpose of developing followers into similar leaders (Burns & Avolio, 2006). Moreover, strategic leaders have the ability to be strategically oriented. Strategic orientation involves the ability to consider both the long-term future, seeing the bigger picture, as well as understanding the current contextual setting of the organization. We thus conceptualized strategic direction as comprising vision of the leaders and their exploration of new opportunities from their business environment. In this study “business development” is used to mean exploration and the two: vision and business

development form what is referred to strategic direction.

Given the scarcity of empirical literature on strategic leadership and particularly its relationship with organizational effectiveness, this research examined the relationship between strategic direction (the extent to which leaders articulated their organization's vision and pursued new business opportunities: vision and business development) on a Kenyan sample drawn from deposit taking SACCOS. Consequently, the study attempted to answer the question: what is the relationship between strategic direction and organizational effectiveness of SACCOS in Kenya?

2.0 Theory and hypothesis

This study was anchored on the strategic leadership model (Duursema, 2013) which combines aspects of strategy (exploitation and exploration) and transformational leadership theory (vision and human capital focus) (e.g., Bass & Avolio, 1994). In this study vision and exploration (as observed through business development) as two descriptors of strategic direction were tested against organizational effectiveness.

According to Covey, (2011), "the goal of transformational leadership (TL) is to "transform" people and organizations in a literal sense that is to change them in mind and heart; enlarge vision, insight, and understanding; clarify purposes; make behaviour congruent with beliefs, principles, or values; and bring about changes that are permanent, self-perpetuating, and momentum building. The following two hypotheses were tested:

Hypothesis 1. Vision has no significant influence on organizational effectiveness of SACCOS in Kenya

Hypothesis 2. Business development has no significant influence on the effectiveness of SACCOS in Kenya.

3.0 Methodology

A positivist paradigm was adopted because the aim of the study was to test hypothesis by objectively collecting a large amount of quantitative data, analyzing it and making inferences (Easterby-Smith, Thorpe & Lowe, 1991). Consistent with this paradigm, a cross-sectional descriptive survey of 133 respondents was conducted using a structured questionnaire for data collection. The questionnaire was tested for reliability using Cronbach alpha static where a threshold of 0.7 was achieved. Vision was measured by three items, four items for business development, and three items for organizational effectiveness. The items were internally consistent considering the Cronbach (1951) alpha reliability test statistic. Each one of the constructs was measured by multiple items than were anchored on a 5-point Likert scale where the respondents responded by providing their extent of agreement with statements regarding strategic direction and organizational effectiveness. The questionnaire was self-administered and distributed by both drop-and-pick-later method and through Google forms. The contacts of the respondents were obtained from the SACCO Societies Regulatory Authority (SASRA). The respondents were either a manager, or the CEO or their representatives who were senior managers, one from each of the SACCOS. The target population was all the 175-deposit taking SACCOS registered by SASRA, to whom questionnaires were sent out, from which 133 responded.

3.0 Results and discussion

Table 1: Descriptive Statistics

Descriptive Statistics	N	Min	Max	M	SD	Skewness	Kurtosis		
						Statistic	SE	Statistic	SE
My supervisor has a clear understanding of where the organization is going	133	2	5	4.45	0.74	-1.291	0.21	1.236	0.42
My supervisor has a clear sense of where he/she wants our team/unit to be in 5 years	133	1	5	4.17	0.82	-1.326	0.21	3.227	0.42
My supervisor has no idea of where the organization is going (R)	115	1	5	4.30	1.19	-1.733	0.23	2.064	0.45
Vision (TL)	133	2.3	5	4.11	0.86	-0.663	0.21	-0.954	0.42
My supervisor actively explores new markets	133	2	5	4.11	0.90	-0.603	0.21	-0.685	0.42
My supervisor recognize/s potential new clients	133	2	5	4.09	0.82	-0.92	0.21	0.731	0.42
My supervisor makes innovative proposals to penetrate new markets	127	2	5	4.05	0.75	-0.416	0.22	-0.215	0.43
My supervisor seeks entrance at new potential clients	133	1	5	4.03	1.08	-1.234	0.21	1.046	0.42
Business development (SL)	133	2	5	4.02	0.76	-0.758	0.21	-0.089	0.42
My organization has introduced innovations of new products/services	133	1	5	3.93	1.07	-0.888	0.21	0.014	0.42
My organization has improved its coordination of the development efforts of different units	133	1	5	3.93	1.00	-1.076	0.21	0.687	0.42
My organization is adapting quickly to unanticipated changes	130	1	5	3.65	0.94	-1.144	0.21	1.338	0.42
Organizational effectiveness	133	1.7	5	3.81	0.80	-1.039	0.21	0.158	0.42

From the survey results of the 133 SACCOs that responded, data analysis was done.

These included descriptives, correlation and regression results that are presented in this section. First the descriptive results are presented in Table 1 followed by the inferential results.

4.1 Status of strategic direction and organizational effectiveness

The descriptive results on vision, business development disposition, and organizational effectiveness are given in Table 1. The results on individual item measures and for the composite scores of the variables are also presented.

There was more clarity of vision (M = 4.11, SD = 0.86) for the organization than there

was exploration (M = 4.02, SD = 0.76 of new business opportunities by SACCOs in Kenya. Further there was moderate level of organizational effectiveness (M = 3.81, SD = 0.80). While an example of the items that measured vision was “My supervisor has a clear sense of where he/she wants our team/unit to be in 5 years”, an item for business development was “My supervisor makes innovative proposals to penetrate new markets”. Further, organizational effectiveness was assessed by asking the

respondents about “introduction of new products/ services” (M = 3.93, SD = 1.07) and “quick adaptation to changes by the organization” (M = 3.65, SD = 0.94)

4.2 Relationship between strategic direction and organizational effectiveness

The relationship between strategic direction and organizational effectiveness was assessed using correlation analysis and the results are presented in Table 2

Table 2: Correlation Analysis

Table 2: Correlation coefficients

Correlations	1	2	3
Vision (TL)	0.675 133		
Business development (SL)	.465** <.001 133	0.847	
Organizational effectiveness	.305** <.001 133	.568** <.001 133	0.693 133

** Correlation is significant at the 0.01 level (2-tailed).

The Cronbach alpha reliability statistics are presented in the leading diagonal. As seen from Table 2 the Cronbach alpha is within 0.7 threshold; in particular alphas greater than 0.6 are acceptable. With regard to the relationship between strategic direction (vision and business development) and organizational effectiveness, there was a stronger relationship between business development disposition (strategic leadership model dimension: exploration) ($r = .568, p < .001$) than between vision (transformational leadership variable) and organizational effectiveness ($r = .305, p < .001$). This result suggests that strategic leadership is more predictive of organizational effectiveness than

Table 3a: Logit

Model Summary

Step	-2 likelihood	Log Cox & Snell R Square	Nagelkerke R Square
1	139.793 ^a	.147	.209

a. Estimation terminated at iteration number 4 because parameter estimates changed by less than .001.

Table 3b: Logit

Classification Table^a

Observed	Performance _bin	Predicted		Percentage Correct
		.0	1.0	
Step 1 Organisational effectiveness_bin	.0	12	27	30.8
	1.0	12	82	87.2
Overall Percentage				70.7

a. The cut value is .500

transformational leadership. It means that besides articulating the vision of the organization, in this case deposit taking SACCOs in Kenya, leaders should actively explore new business opportunities.

4.3 Influence of strategic direction on organizational effectiveness

A binary logistic regression was run with vision and business development (exploration) as predictors of the probability of organizational effectiveness Table 3a-b. The results of the analysis are presented in Table 3 a-c.

Table 3c: Logit

rejected since the Wald = 14.706 had a p – value less than .05. It was thus concluded that, business development significantly

Variables in the Equation		B	S.E.	Wald	Df	Sig.	Exp(B)
Step 1 ^a	Vision (TLT)	.055	.269	.041	1	.839	1.056
	Business development (SLM)	1.189	.310	14.706	1	.000	3.284
	Constant	-3.997	1.300	9.460	1	.002	.018

a. Variable(s) entered on step 1: Vision (TLT), Business development (SLM)

Results in Table 3c show that whereas business development significantly increased the probability of organizational effectiveness (B = 1.189, Wald = 14.706, exp (B) = 3.284, $p < .001$) organizational vision did not (B = .055, Wald = .041, $P = .839 > .05$, exp (B) = 1.056). However, from the correlation results, both vision and business development had a positive significant ($p < .05$) linear relationship with organizational effectiveness. Findings also reveal that the managers were slightly more visionary compared to the way they explored and pursued (exploration) more business opportunities. On the basis of the findings of the logistic regression analysis and at 5% level of significance ($p < .05$) of hypothesis testing,

Hypothesis 1: Vision has no significant influence on organizational effectiveness of SACCOs in Kenya was not rejected since the Wald = .041 had a p –value greater than .05 indicating that vision did not significantly predict the probability of organizational effectiveness.

On the contrary, Hypothesis 2: Business development has no significant influence on the effectiveness of SACCOs in Kenya was

increases the probability of organizational effectiveness in SACCOs in Kenya.

5.0 Discussion

In a study of firms in India, Wadhwa (2016), found that vision and mission significantly influenced organizational performance and further that “it is not just the formation of vision and mission statement but its content, communication, implementation and contribution ... are equally important” (p.165). Though the finding of the current study did not show a significant influence of vision on the probability of organizational effectiveness, when tested together with exploration, it had a significant relationship on organizational effectiveness in the correlation results. The finding of the current study is thus consistent with previous studies regarding the relationship between vision and performance – in this study, performance was measured by observing organizational effectiveness of SACCOs in Kenya. The role of vision in leadership effectiveness which is related to organizational effectiveness has been demonstrated in previous studies (e.g., Senaji et al., 2014).

With regard to exploration, which is essentially opportunity seeking, our finding

relates in some way to the results from 206 Finnish software firms which indicated that strategic learning fully mediated the relationship between exploration, exploitation, and profit performance (Sirén, Kohtamäki & Kuckertz, 2012). This is so because we used logistic regression and found a significant odds ratio for organizational effectiveness. Further, though previous empirical studies have provided evidence of the positive performance impacts of ambidexterity—the joint pursuit of exploration and exploitation strategies (e.g. Gibson & Birkinshaw, 2004), some studies suggest that these strategies do not necessarily guarantee performance and that the connection between ambidexterity and performance is more complicated (Sirén et al, 2012, p. 20). There is no empirical support for the relationship between ambidexterity and performance (Venkatraman, Lee & Iyer, 2007). Further, some other studies have provided empirical evidence that exploration and exploitation are not linearly related to performance; instead their relationship with performance is curvilinear (Sirén et al, 2012). Based on the previous studies and our findings, it is suggested that the relationship between exploration (such as opportunity seeking) is not linear and may be mediated by strategic learning (see also Siren et al., 2012).

6.0 Conclusion and Applied Implications

While SACCOs practice strategic direction as shown by the level of articulation of vision and business development by the leaders ($M \Rightarrow 4$), they are not sufficiently effective enough ($M = 3.81$, $SD = 1.07$). Further, business development (exploration) has a higher predictive power for organisational effectiveness than articulation of vision of the organisation. It is recommended that managers of SACCOs emphasize strategic

leadership through active exploration of new markets and recognition of potential new clients (strategic leadership) even as they maintain clarity of vision (transformational leadership) for their organisations. Specifically, the leaders need to emphasize more on exploration (business development) through exploration of new markets, recognition of potential new clients and penetration of new markets even as they focus on the vision of the organisation such as through clear understanding of where the organization is going and communicating the same throughout the organisation; and maintaining a clear sense of where they want the organisation to go. Similarly, though vision did not have a significant influence on organisational performance in the presence of exploration, it individually had a significant relationship on it. Consequently, SACCOs should continue emphasizing the vision, communicating it and be committed to it, since it has a positive effect on effectiveness.

References

- Bass, B., & Avolio, B (1994). *Improving Organisational Effectiveness through Transformational Leadership*. Thousand Oaks, CA: Sage Publications.
- Cronbach, L. (1951). Coefficient alpha and the internal structure of tests. *Psychometrika*. 16 (3), 297-334.
- Davies, B. J., & Davies, B. (2014). Strategic Leadership. *School Leadership & Management*, 24 (1), 29 – 38.
- Duursema, H. (2013). Strategic Leadership Moving Beyond the Leader-follower Dyad. *Erasmus Research Institute of Management – ERI*. Retrieved August 30 from ERIM Electronic

- Series Portal:
<http://hdl.handle.net/1765/1>.
- Easterby-Smith, M., Thorpe R., & Lowe A. (1991). *Management Research: An Introduction*. London: Sage. Retrieved September 3, 2019 from <http://ro.uwe.ac.uk/RenderPages/RenderLearningObject.aspx?Context=7&Area=1&Room=1&Constellation=2&LearningObject=42>
- Davies, B. J., & Davies, B. (2014). Strategic Leadership. *School Leadership & Management*, 24 (1), 29 – 38.
- Gibson, C., & Birkinshaw, J. (2004). The antecedents, consequences and mediating role of organizational ambidexterity. *Academy of Management Journal* 47 (2), 209–266.
- Ogola, J. A. (2019). Influence of Transformational Leadership on Performance of State Corporations in Kenya. *Unpublished PhD Thesis*. Kenya Methodist University.
- Senaji, T. A., Metwally, E., Sejjaaka, S., Puplampu, B. B., Michaud, J., & Adedoyin-Rasaq, H. (2014). Lead- leadership effectiveness, motivation, and culture in Africa: Lessons from Egypt, Ghana, Kenya, Nigeria, and Uganda. *Canadian Journal of Administrative Sciences/Revue Canadienne des Sciences de l'administration*, 31 (4), 228-244.
- Sirén, C., & Kohtamäki, M., & Kuckertz, A. (2012). Exploration and Exploitation Strategies, Profit Performance, and the Mediating Role of Strategic Learning: Escaping the Exploitation Trap. *Strategic Entrepreneurship Journal*, 6, 18-41. DOI: 10.1002/sej.1126.
- Venkatraman, N., Lee C. H. & Iyer, B. (2007). Strategic ambidexterity and sales growth: a longitudinal test in the software sector. *Working paper*. Boston University. Retrieved September 4, 2020 from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.472.1790&rep=rep1&type=pdf>.
- Wadhwa, S. (2016). Impact of Vision and Mission on Organizational Performance in Indian Context. *The International Journal of Business & Management*, 4 (12), 165-170.