International Journal of Economics, Commerce and Management
United Kingdom ISSN 2348 0386 Vol. X, Issue 11, Nov 2022

http://ijecm.co.uk/

STRATEGIC DIRECTION IN LEADERSHIP AND PERFORMANCE OF INSURANCE COMPANIES IN KENYA

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Abstract

The purpose of this study was to examine the role of strategic direction in leadership and performance of insurance companies in Kenya. Owing to insurance industry contribution to the economic growth of a country there was need to establish the low insurance services. The study therefore sought to find out if this low uptake of insurance products was associated with strategic direction in leadership in the insurance industry. The study population comprised of the 55 insurance companies in Kenya and a census approach was adopted for each and every company. A self- administered questionnaire was presented to the business strategic managers of the insurance companies. Data was first subjected to descriptive statistics. Further, simple linear regression was fitted to examine the role of strategic direction in leadership on performance of insurance companies in Kenya. The results of the study indicated that performance of majority of insurance companies were influenced by strategic planning and leadership. In addition to that most of the respondents were in agreement that through strategic direction in leadership they have managed their customer needs optimally. There was neither agreement nor disagreement on whether strategic direction enhanced the growth of profit levels in their respective insurance companies. The results of the findings were in support of strategic leadership theory that supported provision of strategic direction in order to optimize achievement of organization goals and objectives. There was however a general consensus that insurance companies' strategic plans should clearly articulate their vision and mission.

Keywords: Performance, insurance companies, strategic planning, strategic leadership theory, insurance policy, strategic direction

INTRODUCTION

The aspect of organization performance continues to attract interest in public, private, profit and non-profit making entities (Mkalama, 2014). In this 21st century competitive business environment is complicated, challenging, sporadic, which calls for swift and accurate decision making for an organization to remain competitive (Mui, Basit & Hassan, 2018). Consequently, most firms have switched to strategic leadership so to build strategies aimed at sustaining firms competitive in not only challenging but sporadic operating environment. According to Taiwo, Ayodeji and Yusuf (2012) organization success is dependent on leadership commitment to strategic capabilities. Owing to contribution of insurance on economic growth there was need for adoption of strategic leadership approach. Moreover, with strategic leadership in place an organization may achieve superior performance in a turbulent operating environment. Though, its success is contingent to other factors such as strategic leader's capacity to influence behavioral changes, personal and organization interest alignment through strategy formulation and implementation (Hitt, Haynes & Serpa, 2010). Strategic leadership is perceived to be leader's capacity to forecast and maintain flexibility and empower other stakeholders to respond to changes in business environment (Hitt, Ireland & Hoskisson, 2012). According to Deeboonmee and Ariratana (2014) strategic leadership calls for harmonious blend on management of both the internal and external environment together with quality management of information gathered from different sources.

Quality business leadership calls for identification and overcoming challenges that may hinder achievement of organizational goals. This would be achieved through the understanding of complex, timely and focused decision making (Funda & Cihan, 2014). For an organization to be vibrant and competitive then leadership should provide direction. This will be achieved through strategic direction, strategic human capital development, strategic corporate communication and strategic controls. According to McCleskey (2014) leadership success is dependent on improved thinking when exposed to challenging environment and clarity of performance targets.

Statement of the Problem

Even though, insurance sector has significant role in economic growth in Kenya, its penetration in Kenya is at most 3% (Choy, 2011). Hence, there is need for understanding on why despite sensitization and government efforts to enhance insurance uptake the demand for it is so small. The insurance industry performance seems to be exposed to stiff competition by commercial banks which are currently providing bancassurance services. Despite of this linkage the demand for insurance products is still low. Could this low uptake of insurance products be associated with strategic direction in leadership in the insurance sector? In essence, the current study aimed at examining the role of strategic direction on performance of insurance companies in Kenya.

LITERATURE REVIEW

Strategic Leadership Theory

Strategic leadership theory was developed by Hambrick and Mason's (1984) and the theory alluded that organization performance is a reflection of the quality of its leadership. Oppong (2014) argues that there is need for involvement of all organization stakeholders in formulation of organization strategic plans. Carpenter, Geletkanycz and Sanders (2004) hailed leadership and model for transmission of organization values, beliefs and ethics in different levels of an organization structure. The focus of strategic leadership was aimed at guiding in selection of the most optimal procedure that would optimize organization performance. Oppong (2014) argued that there was need for strategy formulation, implementation and monitoring and evaluation so as to enhance achievement of organization goals and objectives. Phillips and Burbach (2010) argued that leadership value in an organization would be achieved if there was clarity of vision, reliable communication skills and human capital that is ready to respond to organization demands. This would be manifested through deployment of competitive strategies, organization culture in place, efficiency in resources allocation and clarity of management model adopted.

Although, the theory was meant to provide strategic direction its main drawback was its skewness towards top management. DeChurh, Hiller, Murase, Doty and Salas (2010) alluded that failure to incorporate participatory management approach would erode odds of achievement of organization goals and objectives. Furthermore, the theory should incorporate the environment in which the management executed their leadership skills. Makri and Scandura (2010) observed the need to consider group interactions while developing organization polices since they have power amongst themselves.

The theory was fit for the study since there was need for the leadership of corporate entities to provide strategic direction that enhanced chances of achieving organization goals and objectives. There was need for clarity of strategic direction through development of short-, medium- and long-term plans that may guide in achievement of organization goals and objectives.

Empirical Literature Review

Rahman, Othman, Yajid and Rahman (2018) studied the effect strategic leadership on operational strategy and organization performance of automobile companies in Malaysia. Cross sectional research design was adopted and primary data gathered through administration of questionnaires. Descriptive and inferential statistics analyzed the data. Study findings indicated that there was a significant association between strategic leadership and organization change and efficiency. The study should have fitted structural equation model and report its diagnostic tests that justified choice of correlation analysis.

Funda and Cihan (2014) investigated the effect strategic leadership on performance of small and medium enterprises in Turkey. Descriptive research design was adopted and questionnaires were issued to 215 respondents. Descriptive and multiple regression statistics analyzed the data. Study findings indicated that there is a significant relationship between strategic leadership style and performance of small and medium enterprises. The results should not be generalized in Kiambu SACCOs since their operating environment and nature of business risk differs from SMEs in Turkey.

Kabetu and Iravo (2018) studied the influence of strategic leadership on performance in the humanitarian organizations. Descriptive research design was adopted and primary data gathered through administration of questionnaires. Descriptive and inferential statistics analyzed the data. Multiple regression analysis indicated that strategic communication, adaptation of core competencies, development of human capital, organization flexibility, and effective organization culture has positive and significant influence on strategic leadership of humanitarian organization. Unlike SACCOs that are profit making humanitarian organizations are meant to achieve social economic objectives hence their strategic needs may be different.

Gaturu, Waiganjo, Bichanga and Oigo (2017) investigated the effect of strategic controls on performance of mission hospitals in Kenya. Descriptive research was adapted and primary data collected through questionnaires administration. Descriptive statistics and independent T test analyzed the data. Study findings indicated that there was a significant association between strategic control and performance of mission hospitals. The study should have used correlation and simple linear regression analysis. Further these results may not be generalized in SACCOs since there are in different degrees of risk as compared to health institutions.

Munyao, Chiroma and Ongeti (2020) investigated the effect of strategic direction on performance of African Inland Church theological institutions. Cross sectional research design was adopted and primary data gathered through administration of questionnaires. Descriptive and regression analysis analyzed quantitative data. Content and thematic analysis analyzed qualitative data. Study findings indicated there was positive and significant relationship between strategic leadership direction and performance of theological institutions. It was recommended that AIC theological institutions should be strategic due to volatility of operating business environment.

Abdow, Guyo and Odhiambo (2018) examined the effect of strategic direction on organization change of petroleum companies in Kenya. Descriptive research design was applied and simple random sampling was used in selection of 234 CEOs and board of director members. Descriptive statistics, exploratory factor analysis and regression modeling analyzed the data. Study findings indicated that strategic direction has positive and significant effect on organization in petroleum industry. It was recommended that petroleum companies should align their strategic goals with vision and mission goals.

RESEARCH METHODOLOGY

The study adopted descriptive research design which according to Sekaran and Bougie (2013) aims at examining the what, how and why in regard to items under interest. Since there are only 55 insurance companies in Kenya a census approach was applied and from each company, a self -administered questionnaire presented to the business strategic manager.

Quantitative data collected was cleaned coded and entered into Statistical Packages for Social Scientists version 23. Descriptive measures that included minimum, maximum, mean, standard deviation and coefficient of variation were used for data analysis. Moreover, simple linear regression was fitted to examine the role of strategic direction on performance of insurance companies in Kenya. The model for the study was:

$$\text{Insurance performance} = \alpha + \beta^{*}\text{Strategic direction} + \varepsilon$$

FINDINGS AND DISCUSSIONS

The objective of the study was to examine the effect of strategic direction on performance of insurance companies in Kenya. Descriptive statistics in Table 1 indicates that majority mean = 4.1 either agreed that presence of organization plans optimizes their organization performance or use of strategic plan to determine organization structure enhances their performance. There was an agreement that insurance companies' strategic plans clearly articulate their vision and mission (mean = 4.2). Majority mean = 4.6, strongly agreed that they plan for human capital needs in line with their strategic plans, their leadership sensitizes among all stakeholders on the need for strategic planning and they short, medium and longterm targets which are clear among all. Moreover, majority strongly agreed mean = 4.5 that through strategic plans their identify practices that optimized their performance.

Table 1 Descriptive Statistics on Strategic Direction

	Min	Max	Mean	Std. Dev	CV
organization plan optimizes our organization performance	3	5	4.1	0.6	7.0
Strategic plan clearly articulates our vision and mission	3	5	4.2	0.7	5.9
Strategic plan to determine our organization structure	2	5	4.1	0.8	5.0
human capital plan needs in line with our strategic plan	1	5	4.6	0.8	6.0
strategic plan identifies capabilities that optimizes performance	2	5	4.5	0.8	5.7
Leadership sensitizes the need for strategic plan among stakeholders	2	5	4.6	0.7	6.5
Short, medium and long term targets which are clear to all	3	5	4.6	0.6	7.8

Regarding the performance of insurance companies, results in Table 2 indicates that majority agreed that there are notable levels of improvement of their market share (mean = 3.6) or they have managed to optimize their sales due to strategic planning. Further, majority agreed that through strategic direction they have managed their customer needs optimally (mean = 3.9). There was neither agreement nor disagreement on whether strategic direction enhanced the growth of profit levels in their respective insurance companies (mean = 3.2).

Table 2 Descriptive Statistics on Performance

	Min	Max	Mean	Std. Dev	CV
There are notable levels of our market share	1	5	3.6	1.1	3.3
Role of strategic direction and profit levels	2	5	3.2	0.8	3.9
Strategic direction and effect of insurance policy sales	1	5	3.6	1.3	2.7
Strategic direction, has optimized customer needs	2	5	3.9	0.6	6.6

Regression Analysis

Regression analysis in Table 3 has an R squared of 0.6747, that indicates that 67.47% of changes in insurance companies' performance in Kenya is associated with strategic leadership direction. The association is significant since the F statistics of 85.03, has a p value of 0.0000. There was a positive and significant effect of strategic direction on performance of insurance companies in Kenya ($\beta = 0.9379$, p value < 0.00). This indicated that unit increase in strategic direction increases performance of insurance companies by 0.9379 units. The results are in support of strategic leadership theory that calls for provision of strategic direction in order to optimize achievement of organization goals and objectives.

The results of the study are in support of Rahman et al., (2018) who argued that strategic leadership was associated with organization change and efficiency among automobile manufacturing companies in Malaysia. The study supports Funda and Cihan (2014) who documented that strategic leadership supported performance of small and medium enterprises in Turkey. Similarly, the results confirmed Kabetu and Iravo (2018) who documented positive and significant effect of strategic leadership on performance of humanitarian organizations in Kenya.

Table 3 Regression Analysis

Source	Ss	df	Ms		
				Number of obs	= 43
Model	37.8969145	1	37.8969145	F(1, 41)	= 85.03
Residual	18.27276	41	.445677074	Prob>F	= 0.0000
Total	56.1696745	42	1.3373732	R-squared	= 0.6747
				Adj R-squared	= 0.6668
				Root MSE	= .66759
247 Insuranceperformance	Coef	Std err	T	P>1t1	[95% Coef. Interval
Strategicdirection	.9378719	.1017072	9.22	0.000	.73247 1.143274
_cons	-.1399678	.101861	-1.37	0.177	-.3456801 .0657446

CONCLUSION AND RECOMMENDATIONS

From the findings the following conclusions can be made. That strategic direction positively affects performance of insurance companies in Kenya. To optimize in achievement of strategic goals among insurance companies there is need for clarity of vision and mission statements. The management ought to provide key performance indicators that would guide in evaluation and monitoring in compliance with organization strategic directions.

Strategic leadership theory was developed by Hambrick and Mason's (1984) and the theory alluded that organization performance is a reflection of the quality of its leadership. Furthermore, insurance companies ought to make their products more attractive to their customers through sensitization on the value added benefits to be gained.

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