Effect of Strategic Leadership on Organizational Performance through Knowledge Management

Abdul Samad Dahri*, Madiha Riaz†, Shaheera Amin‡, Muhammad Waseem§

Abstract

Pacing financial developments in developing economies, demands aspirant strategic leadership for knowledge management mechanism to attain edge over competitors regarding organizational performance. This study aims to assess strategic leadership influence organizational performance in banks through knowledge management by branch managers of Karachi, Pakistan. Cross-sectional design based on random sampling method was used for 129 branch managers through questionnaire. Data collected was analysed through Smart-PLS 3.2.8 revealed that all relations were significantly supported. This study reveals effectiveness and predicts potential benefits that banking sector may achieve while struggling in developing economies through knowledge management as key resource to induce organizational performance. This study is thus useful for stake holders in current scenarios particularly in developing countries.

Key Words: Strategic Leadership; Knowledge management; Organizational Performance

Introduction

Every firm aspires to grow by strategically having edge over competitors, whether local or global. Therefore, contemporary organizations are depending gradually lowering dependency over physical assets and increasing access to potential world-wide markets. This required firms to develop capabilities beyond mere application of physical or financial assets (Andreu Baiget, & Canale, 2008). Such a goal of organisation may rely on many good mechanisms and knowledge management is one of them, if it maximizes and creating upon knowledge management. To achieve this object leadership is the most important mechanism (Gold, Malhotra, & Segars, 2001). In general observation, employees fall

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* Abdul Samad Dahri, PhD Scholar, School of Business Management, Universiti Utara Malaysia, Malaysia. Email: Dahriabdulsamad@gmail.com
† Madiha Riaz, Department of Economics, Ghazi University, Dera Ghazi Khan, Pakistan
‡ Shaheera Amin, Assistant Professor: Department of Business Administration, University of Sahiwal, Pakistan
§ Muhammad Waseem, School of Business Management (SBM), Universiti Utara Malaysia (UUM), Malaysia
into conflict regarding knowledge management issues in the organization where leadership aspect in key to resolve the conflict (Berlade & Harman, 2000). Thus, leadership style is crucial to consider which makes functions feasible for knowledge management process and practices to excel (Singh, 2008).

In general, local banks face intense competition from foreign banks regarding financial, product, and service quality differences. Further, the strategy that firm holds does not ensure performance. Indeed, strategy is the collective implication of strategic choices (Hunger & Wheelen, 2003). Such that the performance of the company is the ability to implement those strategies (Lawless & Tegarden, 1991). Therefore, strategic leadership role is essential for proper strategic policy implementation so that offices achieve organizational goals effectively and efficiently.

Similarly, Banking sector is one of the fast-growing sectors in Pakistan and has been ranked second by World Bank report in South Asia based on performance (Rehman & Raoof, 2010). This shows banking sector is developing knowledge-based product and services (Scarborough, 2003). Development of banking sector is considered as the development of economy and strength of any country. Banking sector drives financial sector of any country in providing liquidity for valuable activities such as development of new industries. These developments expand economy and employment creation, international commerce and trade contributing overall prosperity of the country (Raza, Jawaid, & Hassan, 2015). Competition is also increasing day by day and different leadership styles have different influence on knowledge management (Bryant, 2003). Moreover, top management in banking face challenge to keep up with variant monetary policies, swift strategic regional values, and recent fast pace growth needs since long working hours, lack of employee commitment, dissatisfaction, turnover, and therefore, starving for leadership with strategy to satisfy all these challenges (Asrar-ul-Haq & Kuchinke, 2016).

Accordingly, performance in particular has chronically been reported as issue in banking sector of Pakistan. Such that, Khalabat (2011) reported Pakistani banks could not face challenges to raise capital due to weak performance. That lead 57 mergers and acquisition deals occurred in banking sector of Pakistan (Abbas, Haider, & Rana, 2014). Considering these situations lower performance is decreased slowing down financial and economic development of the country (Shahid, Hong, Yu-Lu, & Shahid, 2015). Leadership influences followers for desired behaviours to create conducive environment for strategic plan implementation to further organizational performance. Thus, Strategic leadership helps boost organizational performance and positively influence wide range of organizational qualitative indicators (Mathura, 2009). Further, Davis
and Botkin (1994) anticipated that future organizations will be educators and customers will learners and therefore future businesses must be more intelligent. Hence, knowledge-based banking industry is projected to implement knowledge management system (Scarborough, 2003). Author further, stresses that it is time for banking sector to serially develop knowledge management to address mainly strategy integration, culture, human resource, and technologies.

Since leaders control the knowledge management process (Martin & Marion, 2005). Leader is one of elements that is important to initiate knowledge management (Ramachandran, Chong & Wong, 2013) and is linked with environment, strategic, and enterprise decision making processes (Stankosky, 2005). Whereas, Fullwood, Rowley, and Delbridge (2013) could not find any significant effect of leadership in knowledge management which provides research issue to address.

Accordingly, knowledge management improves quality of decision making and improves organizational performance (Mosconi & Roy, 2013). Where, strategic leadership play critical role in successful implementation of strategic knowledge management (Smith & Prieto, 2008). Similarly, strategic leadership was observed with various dimensions of strategic implementations in South Africa and found effective by Jooste & Fourie (2009). Therefore, knowledge management provides organization adaptability with changing environment and performance edge over competitors.

Firms have observed positive effects of knowledge management on performance (Tanriverdi, 2005) by improving in distinguishable quality product and services and to achieve advantage (Menguc, Auh, & Shih, 2007). Where, knowledge management improved delivering unique product or services to customers improved customer satisfaction and sales volumes (Bogner & Bansal, 2007). Thus, human resource is largely involved in deploying leadership style suitable for knowledge management implementation to increase organization performance.

Past studies highlighted practical impact of knowledge management for performance and competitive edge for wide range of organizations. They also affirm that knowledge management is applicable and essential for any organization. However, there is still lack of strategic leadership in the organizations (Rowe, 2001). Further, there is lack of scholarly work regarding knowledge management in banking sector (Sulselbar, 2015), particularly, in developing countries. Therefore, this research attempts to fill the knowledge gap by addressing effect of strategic leadership on organizational performance through knowledge management in public and privately-owned banks in Pakistan.
Literature review and Hypothesis development

Strategic Leadership, Knowledge Management and Firm Performance

Leaders provide motivations, direction, equal opportunity, measure rewards, performance, and importantly knowledge management strategies (Singh, 2008). To be expert in knowledge management practices in an organization, employees must be provided leadership style that empowers sufficient authority and enables responsibility to manage his/her life at workplace (Singh, 2008). This is important as leaders set the example for others to follow, thus, leadership role is assumed to affect the way the organizations approach knowledge management process, practices, and implementation.

Literature oversights the leadership and organizational performance link, despite that, leadership has been vital for individual effectiveness and organizational performance (Judge and Piccolo, 2004; Keller, 2006; McGrath and MacMillan, 2000). Therefore, scholars (e.g., Avery, 2004; Drath, 2001) have debated over effectiveness if leadership style and behaviour. In line of these argument, strategic leadership theory that has evolved from original upper echelons theory by Hambrick and Mason (1984) supports present study research framework, as strategic leadership focuses not only on relational activity but also as strategic and symbolic activity with technoeconomic optimization capability (Hambrick, Finkelstein, & Mooney, 2005; Hambrick, 2007).

Strategic leaders are capable of architecting current strategies for the organization and lead others towards in defining what the new architect of the future would be (Davies & Davies, 2004). Strategic leadership, similarly, reflects the extent a leader strategically thinks about creating change and to advance the organization in new directions or markets (Ambula, 2015).

Contemporary organizations are in competitive edge and complexity of business problems needs accelerated transformation therefore require new design and strategic approaches (Oltra & Vivas-Lopez, 2013). Organizations are already devising ways to improve effectively and efficiently by implementing knowledge management (Yang & Chen, 2009). Since, knowledge management, is the ability to create, retain, and share knowledge resources of the firm for sustainable competitive advantage (Chuang, 2004).

Knowledge management is crucial for constant competitive edge and business success (Drucker, 1998; Daverport & Prusak, 1998). It is observed that firms that invest in new knowledge creation through informal learning or research and development perform better than those who depend on knowledge created by others (Boisot, 1998). This shows knowledge creation is critical to enhance organizational ability to learn and adapt.
Knowledge management is believed to help organization to achieve competitive edge and improved performance (Zheng, Yang, & McLean, 2010). Knowledge management also aims to modernise, collaborate, and make right decisions efficiently (June, 2005). There are several benefits of knowledge management such as, time, effort, and cost reduction in producing new product or service, and increases the productive efficiency (Singh, 2008).

Therefore, organizations globally are embracing knowledge management programs in last few years (Bose, 2004) for instance; The ford motors company saved $ 914 million due to effective knowledge management from 1997-2000; chevron is saving $ 650 million since 1991. Likewise, CEOs at Davos, Switzerland in 2001 world economic forum were polled and 95% agreed upon the importance of knowledge management for organizational success. Thus, knowledge management is strategic asset for the organization that potentially endeavours competitive edge for organization.

Past studies encompassed organizational from financial performance (Zahra & Covin, 1995), non-financial (Carton, 2004) to innovative performance (Alegre & Chiva, 2013). Based on various theoretical assumptions for example stake holder theory (Odumuru, 2013). Yet, measures to assess organizational performance kept changing over time (Kennerley & Neely, 2003). Both the internal and external factors affect organizational performance, whereas, this study stands from strategic leadership and knowledge management view to evaluate organizational performance as organizational performance also refers to appropriate strategy (Otley, 1999) to achieve organizational goals (Richard, Devinney, Yip, & Johnson, 2009) assessed in many developed countries as in USA and UK. Yet, less organizational performance of banking sector in developing countries from Asian context showed in literature from strategic leadership and knowledge management perspective.

To improve performance Watkins and Marsick (1996) suggests organizations to focus on knowledge which serves as critical success factor by facilitating individuals, team and organization learn to continuously and improve in business operations. Moreover, Lee and Lee (2007) confirmed the association between knowledge management and organizational performance. Accordingly, Kagiri (2008) observed the effect of strategic knowledge management on organizational competitive edge in Kenya’s commercial book publishing industry. Based on literary arguments, following hypothesis are drawn:

H1: Strategic Leadership positively influences knowledge management
H2: Knowledge management positively influences organizational performance
H3: Knowledge management mediates positively between strategic leadership and organizational performance

Following figures shows the theoretical research frame:

![Research frame Work](image)

**Research Methodology**

*Population, sample, sampling technique, and data analysis*

As focus of this research revolves around the characteristics of banks in Pakistan. Branches are the key positions of the bank (Athanassopoulos, 1997) and overall performance of the bank resides with the operational network of the branches (Das *et al*., 2009). The respondent must be bank employees who represent respective bank and offer services to customers in the field. Every bank has branch yet this study concerns the leadership effect on bank performance that would gather response from only managers of the branch who is supposed to look after the branch complete aspects as leader. Therefore, branches are considered as strategic business units where strategic policy implementations make the difference and base to execute strategy in the field (Theodosiou, Kehagias, & Katsikea, 2012).

Questionnaire were self-administered and distributed among branch managers of banks branches of Karachi city. Where the total population included 156 branches of Habib Bank Limited (HBL), 129 of Muslim Commercial Bank (MCB), 119 of United Bank Limited (UBL), 114 of Allied Bank Limited (ABL), 87 of National Bank of Pakistan (NBP), and 58 were of Bank Al-Falah limited (BAL) as per current Pakistan Bank Association record make up a total of 507 branches with managers which make up a sample of 291 as per Krejcie and Morgan’s (1970) suggestion. After population and sample size with managers’ details, simple random sampling was applied to collect the data from respective respondents. However, the response was followed through calls reminders as some branch managers were busy. However, Sekaran (2003) suggested 30% response rate is representative of target population yet study managed response at 45% leaving 132 respondents with returned questionnaires. The data revealed that male managers were 95% and female managers comprised only 5% of total sample from populations. The data of respondents were screened for outliers or missing values through...
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SPSS. Only 129 were successfully complete and proceeded with further analysis.

**Results**

This study employed partial least square method using Smart-Pls 3.2.8 software (Ringle, Wende, & Becker, 2015) for analysing the data. The study tested the measurement model for validity and reliability and structural model for testing the relationship or influence among variables for final outcome.

**Measurement Model**

The measurement model was assessed through convergent and discriminant validity. Before moving towards measurement and structural model assessment, multicollinearity was checked as presence of multicollinearity might inflate the coefficient standard error (Tabachnick & Fidell, 2007). For that purpose, Variance Inflated Factor (VIF) values must be less than 5.0 (Hair, Ringle, & Sarstedt, 2013) and received acceptable values were also below 5.0 suggested threshold.

**Convergent validity**

This is the degree to which item correlates with variable intended to measure. Based on Hair, Sarstedt, Hopkins, and Kuppelwieser, (2014) suggested to use item cross loading equal or above 0.6, the average variance extracted (AVE) values equal or above 0.5, and composite reliability (CR) values to be equal or above 0.7. where, item OP 10 and OP 11 were deleted for lower than threshold values and table 1 reveals the achieving acceptable convergent validity.

**Table 1: Cross Loading, Composite Reliability and Average Variance Extracted**

<table>
<thead>
<tr>
<th>Construct</th>
<th>Item</th>
<th>Loading</th>
<th>CR</th>
<th>AVE</th>
</tr>
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<tbody>
<tr>
<td>Knowledge Management</td>
<td>KM</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>KM1</td>
<td>0.837</td>
<td>0.938</td>
<td>0.683</td>
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<tr>
<td></td>
<td>KM2</td>
<td>0.843</td>
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<td></td>
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<tr>
<td></td>
<td>KM3</td>
<td>0.789</td>
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<tr>
<td></td>
<td>KM4</td>
<td>0.79</td>
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<tr>
<td></td>
<td>KM5</td>
<td>0.853</td>
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<tr>
<td></td>
<td>KM6</td>
<td>0.823</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>KM7</td>
<td>0.849</td>
<td></td>
<td></td>
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<tr>
<td>Organizational</td>
<td>OP</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td>OP1</td>
<td>(0.715)</td>
<td>0.961</td>
<td>0.625</td>
</tr>
<tr>
<td></td>
<td>OP12</td>
<td>0.797</td>
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<td></td>
<td>OP13</td>
<td>0.816</td>
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<td></td>
<td>OP14</td>
<td>0.774</td>
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<td></td>
<td>OP15</td>
<td>0.863</td>
<td></td>
<td></td>
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<td></td>
<td>OP16</td>
<td>0.743</td>
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<td></td>
<td>OP17</td>
<td>0.687</td>
<td></td>
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<td></td>
<td>OP18</td>
<td>0.804</td>
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</table>
Discriminant Validity

Over the period of time statistical standards have evolved towards deeper and to the point result analysis as recommended from time to time by different scholars. Similarly, measurement model discriminant validity is measured by Hetero_Trait_mono_trait values suggested by Henseler et al. (2015) and recently used by Rahman, Taghizadeh, Ramayah, Alam, (2017). Where the values must be below 0.90 (Gold et al., 2001) which were between 0.429 and 0.716 for the current study as shown in table 1 in brackets.

Structural Model

Partial least square regression is an extension of the multiple linear regression model. So, for the table 2 shows assessment of the structural model, standard beta, t-stats via bootstrapping on resampling of 5000 for R², effect size f², and predictive relevance Q² were examined following the suggestions of Hair et al. (2014).

Table 2 Structural Model

<table>
<thead>
<tr>
<th>Path</th>
<th>Beta</th>
<th>T</th>
<th>LL</th>
<th>UL</th>
<th>P</th>
<th>R²</th>
<th>f²</th>
<th>Q²</th>
</tr>
</thead>
<tbody>
<tr>
<td>KM -&gt; OP</td>
<td>0.687</td>
<td>8.849</td>
<td>0.534</td>
<td>0.833</td>
<td>0.000</td>
<td>0.301</td>
<td>0.899</td>
<td>0.185</td>
</tr>
</tbody>
</table>

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Results for structural model assessment in Table 2 show that strategic leadership is positively influences knowledge management and supports hypothesis H1 where \((b=0.687, \, t\text{-value}= 8.849, \, p<0.01)\) with CI \([0.534,0.833]\). the knowledge management was hypothesized to effect and organizational performance positively H2 and results reveal support for this assumption \((b= 0.548, \, t\text{-value}= 8.992, \, p<0.01)\) with CI \([0.432, 0.670]\). Where the relationship between strategic leadership and organizational performance was hypothesized to be mediated positively by knowledge management \((b= 0.377, \, t\text{-value}= 5.666, \, p <0.01)\) and CI \([0.261, 0.517]\). Moreover, knowledge management had significantly large effect of 89.9% on organizational performance with 30% variance and 18.5% predictability of the relationship in target population. Similarly, organizational performance was observed strategic leadership had 43% medium size effect on knowledge management that caused variance of 47.4% in the organizational performance with 26.6% predictive results.

Discussion
This study was an attempt to examine the influence of strategic leadership positive influence on knowledge management. Moreover, knowledge management was also assumed to deliver positive effect on organizational performance and mediate the between strategic leadership and organizational performance relationship. The observation was conducted in banking organization in Pakistan. Where the data collected was finally analysed.

The findings reveal that strategic leadership has considerable influence on knowledge management and the population comprising both genders were indifferent to agree upon the assumed relationship. Similar results were also found for knowledge management effect on organizational performance as well as for mediating role of knowledge management. Whereas, table 2 shows that strategic leadership influence is perceived positively yet has less effect as compared to knowledge management. These results interpret that knowledge management is positively affecting to acquire, store, re-structure, and utilize the gathered knowledge which would be helpful achieve organizational goals. The employee response depicts appropriate knowledge management but strategic leadership is less influential in the banking organization. The strategic leadership allocates and utilises knowledge in best possible way towards organizational performance. Whereas, leaders in position of manager
in the branches are bound to practice rules rather strategy in the field (Singh, 2008).

The results also show that banks selected from Pakistan need help from top management to policy practices that enhance strategic implementation of strategic utilization of resources. Moreover, weaker influence of strategic leadership suggest that presence of strategic leadership is practiced less than needed which reflected by lower performance of the banks. Moreover, employees may need consulting and delegative relationship with their managers to allocate knowledge management practices efficiently.

To be more specific, the variance caused by knowledge management (30%) is less as compared to collective variance of strategic leadership (47.4%). However, the effect of knowledge management is higher (89.9%) that effect size of strategic leadership (43%). These results depict that there resides an unexplained variable that needs to be explained. Moreover, one possible reason could be the cultural context as Pakistan is power distant culture (Ahmad, Khattak, & Ahmad, 2016) where manager or supervisors are less likely to be approached by employees.

In overall findings along with all dimensions, direct the notion that strategic leadership style has positive influence on knowledge management and considerable impact while, knowledge management is positively linked with organizational performance as compared to strategic leadership and collective variance on organizational performance in higher that single handed strategic leadership which needs further explanation.

Limitations Study and Recommendations of the Study
Though this study efforts above average in expanding limited literature on strategic leadership in banking sector from Asian context particularly Pakistan. Yet, lacks in sampling generalizability as population was from urban and available in city of Karachi only. Future research work may incorporate sample variation. This study was conducted from single unit focused and cross-sectional approach, thus further research may contribute by longitudinal approach on both individual and organizational level. Further, this study is limited to focused strategic leadership, knowledge management, and organizational performance, thus more exploration with unique unexplained variables in different context may contribute towards scholarly literature.

Conclusion
All three objectives of the study were achieved. Strategic leadership style though exists yet less influential which may need further exploration. Likewise, collective effect of strategic leadership and knowledge management is higher on organizational performance. At
branch level managers lead the bank policies who need flexible range for strategic resource allocation or application. Findings enforce for a collective effort may affect organizational performance.

References


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