

## Effect of Leadership on Sustainable Competitive Advantage of Islamic Commercial Banks in Kenya

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**Abstract:** The study aim is to determine the effect of leadership on sustainable competitive advantage of Islamic commercial banks in Kenya. This study was informed by Resource-Based View (RBV) Theory. The study followed pragmatism paradigm and employed both descriptive and explanatory research design. The study targeted 210 HOD, managers and supervisors from the headquarters of the 5 banks offering Islamic banking (2 were fully fledged Islamic banks and 3 conventional banks were offer Islamic banking services). Stratified and Simple random sampling was used in this study to select 111 sampled respondents. The study used questionnaires to collect primary data. The primary data was collected using interview and questionnaires were comprise both open and closed- ended questionnaires. To find out the reliability of the instruments, the instruments was reviewed to find out if they was yield same results after pre-testing. The reliability of the instrument (questionnaire) was analysed using Cronbach's alpha. Data was analysed using both descriptive and inferential statistics. The study used Multiple Linear Regressions to test hypothesis. The findings show that leadership and adoption of technology had positive and significant effect on the sustainable competitive advantage of Islamic commercial banks. It is therefore recommended that the top management of the Islamic commercial banks to embrace good leadership practices, undertake to improve skills of employees so as to realize and sustain competitive advantage

**Keywords:** Leadership, Sustainable Competitive Advantage, Islamic Commercial Banks

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### I. Introduction

Islamic banking has emerged as an effective tool for funding projects globally. Most of financial institutions and centres are finding clear insights that Islamic finance has already been moving side by side within the global financial system. Islamic finance has the ability to contribute and to meet the challenges of ending poverty and boosting prosperity (Tabash, 2018). Ndukhu (2014) affirms that commercial bank in Kenya operates in an environment where it affects the environment by the outputs it produces like products and services and is also affected by the same environment through government regulations, competition from other commercial banks, inputs from its suppliers, consumption of output by its customers.

Islamic banks are playing a positive role in enhancing economic growth in the developing countries due to its distinctive characteristics (Tabash, 2018). In a world of increased competitiveness and demanding customers who expect to have the highest quality products at the lowest possible prices, quality is widely recognized as a source of competitive advantage and is increasingly elevated to strategic importance as an essential determinant of success. In spite of the increased competition in the banking industry over the years Islamic banks have maintained their success in Kenya and this study's main objective is to determine the competitive strategies that the Islamic banks have adopted in Kenya in order to maintain their advantage in the market.

An important factor that was influence the future prospects of the Islamic financial services as an industry in Kenya leadership which was facilitates hands-on responses on to actual changes in the banking competitive environment. A strategy needs to be fluid as the competition was most likely adapt to the most successful company in your industry, so was the strategy need to change in order to meet this adaptation (Marren, 2010). In today's world of intense competition and turbulent conditions, the capability of organizations to steadily track environmental changes undertake and appropriate and timely responses is viewed as an important source of sustainable competitive advantages (Akhavan, Sanjaghi, Rezaeenoor, & Ojaghi, 2014). Leaders should be strategic planners who establish the sequence for attaining the goals towards which they are

leading followers. The growing role of strategic leadership arouses the stakeholder's craving to understand the impact of the top management team on the performance of the organization (Carter & Greer, 2013). Marion & Bien (2007) pointed out that leadership offers a competitive advantage to human systems. Similarly, Harrison (2011) alluded that organizational performance depended on the role played by the leadership

Elsiefy (2016) found out that there is a direct relationship between adoption of strategic leadership and how well an entity enjoys sustainable competitive advantage. Solichun, Syafei, Setiawam & Soliman (2013) sought to establish Islamic bank analysis of marketing Strategy and concluded that Islamic banks should be able to satisfy the needs of their clients in both religion (religious motive) and economic terms (economic motive) and that if Islamic banks do not put in place strategies that was meet customer needs and preferences, the customers was go and get it from competitors. The fast-changing competitive environment, globalization, economic changes, regulation, privatization and the likes, demand that commercial banks are run efficiently and effectively by continuously engaging in strategy formulation and adoption so as to improve competitive advantage (Auta, 2010).

Strategic leadership give edge to firms over their rivals and studies such as Bowen & Ostroff (2004), have shown that good leadership strategies leads to improved performance. Islamic banking is a fairly new phenomenon in Kenya. The banking industry in Kenya is very competitive and Islamic banks cannot only rely on religious factor as it was seen not to be attractive enough to pursue the adherents of the Islamic faith to use the facilities of these shariah compliant banks (AbuBakar 2003). The Islamic banks in Kenya have reported declining profits with First Community Bank's (FCB) net profit plunging by nearly half and Gulf African Bank (GAB) reporting slower growth in earnings in 2013, reversing a trend where they recorded triple digit growth in 2012. FCB saw its full-year after-tax profit dip 45.2 per cent to Sh132.2 million from Sh241.3 million in 2012 (Herbling, 2014). Several studies have been conducted on strategies in Islamic banking sector in Kenya (Asli (2016: Annabelle, 2009) However, this studies did not give exclusive findings on effect of on sustainable competitive advantage. Therefore this study sought to establish the strategic determinants of sustainable competitive advantage of Islamic commercial banks in Kenya. Hence this, study hypothesized that:

*H<sub>0</sub>: Leadership has no significant influence on sustainable competitive advantage of Islamic commercial banks in Kenya.*

## **II. Theoretical Framework**

The study was informed by Resource-Based View (RBV) Theory. RBV theory argue that only strategically important and useful resources and competencies built through leadership strategies should be viewed as sources of competitive advantage (Barney, 2010). The current study takes this cognitive view to suggest that it is possible if organizations consider implementing contemporary leadership strategies. SevOne (2014) suggested that performance monitoring and leadership development strategies can be viewed as critical strategic tools for manipulating human capital element to create competitive advantage. Core competencies are distinctive, rare, valuable organization-level resources that competitors are unable to imitate, substitute or reproduce (Gregory & Pemberton, 2011). Distinctive competencies refer to all the things that make the human capital a strategic asset (Papp & Luftman, 2005). This theory therefore recognizes the fact that human capital element influences competitive advantage in one way or the other within an organization.

### **2.1 Empirical Review**

Jansen, Vera & Crossan (2009) carried out a study on Strategic leadership for exploration and exploitation. They conducted an empirical research at autonomous branches of a large European financial services firm with a broad range of financial services provided in various countries. They used a questionnaire to collect data. The sample size was 1108. Their findings, indicated that transformational leadership behaviors contributed significantly to adopting generative thinking and pursuing exploratory innovation. Transactional leadership behaviors, on the other hand, facilitated improving and extending existing knowledge and are associated with exploitative innovation. In general they concluded that good performance on an organization dependent on good leadership behaviours and practices.

Rahman, et.al (2018) conducted a study on the Impact of strategic leadership on organizational performance, strategic orientation and operational strategy in the automobile industry in Malaysia with a particular focus on Proton. With a sample of 400 respondents, questionnaires were used to collect data from selected senior executives, chief executive officers and members of the senior executive group. The study findings revealed a direct and positive relationship between strategic leadership, operational excellence, strategic orientation and business performance. They concluded that Strategic leadership was directly and positively associated with organizational performance. This therefore implied that the better the strategic leadership, the better the performance of an organization and vice versa.

O'Reilly, Caldwell, Chatman, Lapiz & Self (2010) sought to find out the effects of leaders' alignment on strategy implementation. The study was conducted targeting health care facilities physicians in eight

specialty departments – ophthalmology, emergency medicine, head and facial surgery, pediatrics, surgery, urology and orthopaedics - working in six medical facilities and 46 departments were targeted. The findings were that most organizations do not have multiple layers of leaders, and that leader's don't leads in isolation. The study found out that leaders behaviour influences both group and organizational behaviour to a large extent. The findings also established that when leaders' effectiveness was considered at different levels then significant performance improvement occurred.

Kabuki (2013) on the other hand sought to find out the effect of transformational leadership in capacity building in Kenyan secondary schools as well as the perceptions of principals, teachers, students, and quality assurance team towards the principal's transformational leadership skills. The study also sought to find out the extent to which principals, teachers and quality assurance team understood the concept of transformational leadership and how effectively it was administered in school management. The study found out that leadership programs should develop viable extensions of their programs to assist principals in incorporating effective practice of transformational leadership roles into their day to day performance in school administration. The study recommended that newly recruited heads to be trained on transformational leadership in order to cope with change management. They should also provide support, empowerment and growth opportunities for teachers and other employees by empowering them to practice transformational leadership style.

Serfontein & Hough (2011) conducted a study on the nature of the relationship between strategic leadership, operational strategy and organisational performance of firms in South Africa. Their study sample included all 200 top performing organisations in South Africa for 2008 who comprised of major industries in South Africa, as published in the Financial Mail survey. Their study findings showed that strategic leadership was directly and positively associated with operational excellence and performance in business organisations in South Africa. Similarly, a study by Kahiga (2017) on the influence of Strategic Leadership Practices on Competitive Advantage of National Bank of Kenya concluded that good strategic leadership practices had a positive influence on Competitive Advantage. The researcher adopted a case study research design and sampled senior managers at National Bank were interviewed face to face.

From the reviews of literature relating to Islamic banking, it is evident that research in the area of competition in Islamic banking has been done but not in a comprehensive approach. The literature reviewed indicates that previous researchers focused on a few variables of competition while this study entails more important variables like leadership that were omitted by previous studies like leadership aspects makes the study more comprehensive. This study intends to address as well as fill these pertinent gaps in literature by studying effect of leadership on competitiveness of commercial banks in Kenya.

### **III. Methodology**

The study adoption of pragmatism stance in this study was informed by the ontological, epistemological, axiological and methodological foundations of pragmatism in retrospect of the other paradigms. This study adopted explanatory research design. The causal relationship between an independent variable(s) and one or more dependent variables will be discovered by causal inferences through experimental designs and statistical analysis (Cohen, Manion & Marison, 2011) The Target population of this study 210 HOD, managers and supervisors from the headquarters of the 5 banks offering Islamic banking. The sample size of 110 was obtained using Nassiuma's (2000) sample size formula. Stratified and Simple random sampling was used in this study to select employees. The study used questionnaires to collect primary data. The reliability of the instrument (questionnaire) was analysed using Cronbach's alpha ( $\alpha$ ) and if found to be 0.7 or less ( $\alpha \leq 0.7$ ), it was considered weak, otherwise if found to be 0.8 and above ( $\alpha \geq 0.8$ ), it was considered appropriate

#### **3.1 Analytic Model**

This regression model was used to test the relationship between leadership and performance as a linear function of the independent variables. The  $\beta$ s in the equation represent the estimated parameters which represents the Beta coefficients of the respective independent variables as indicated below.

The regression model is represented below:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \dots\dots\dots \text{Model 1}$$

Where,

$Y$  = Competitiveness of Islamic banks

$\beta_0$  = Constant

$X_1$  = leadership

$\varepsilon$  = Error term

$\beta_1$  = Regression coefficients of the five independent variables.

In the model,  $\beta_0$  = the constant term while the coefficient  $\beta_i= 1 \dots 5$  was used to measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables.  $\epsilon$  is the error term which captures the unexplained variations in the model.

#### IV. Findings and Discussion

This section discusses the research findings for quantitative. It is divided into sections covering: descriptive results, findings of correlation analysis and linear regression model and Hayes models

##### 4.1 Descriptive and Factor Analysis

Descriptive statistics enables researcher to explain the scores of data by use of statistics. Mean and percentages were used to present the study findings. Findings showed that leadership was moderate in Islamic banking the highest quality of empowering employees by providing training, building relationship and developing strategic initiatives, particularly in terms of increasing banking profitability. Leadership was conceptualized as the one of the independent variable in this study. Eleven items were used to measure strategic leadership. A Principal Components Analysis (PCA) was run on the 11 items as depicted in Table 1. The suitability of PCA was confirmed by the overall Kaiser–Meyer–Olkin (KMO) measure of .893 which was meritorious on the classification of Kaiser (1974). Bartlett’s test of sphericity was statistically significant Chi-Square ( $\chi^2$ ) of 1686.363 ( $p < 0.05$ ) ( $p < .05$ ) indicating that data was likely factorable (Hair *et al.*, 2014). The EFA extracted 1 factor with an Eigen value of 2.91 which is above the accepted value of 1 (Yong & Pearce, 2013) and cumulative extracted variance of 53.751%. Thus the items were appropriate to explain the variable.

**Table 1: Descriptive and Factor Analysis for Leadership**

Leadership	Mean	Std. Dev.	Factor Loading
Leadership is a key factor that enhances organizational competitiveness in this organization	3.86	0.97	0.63
The leadership in our institution normally set SMART goals for staff	3.24	1.10	0.58
The leadership in the organization is generally considered to be aggressive and results oriented	3.75	0.92	0.73
Leaders in our organization have problem-solving skills and as a result the organization is in a position to be competitive in the industry.	3.82	0.97	0.81
Leaders in our organization have tactical and technical skills.	3.72	0.71	0.84
Leadership in our organization is generally considered to exemplify entrepreneurship and innovation.	3.76	0.79	0.55
Leaders in our organization develop staff by leveraging on diversity	3.70	1.21	0.73
Leadership in our organization develops strategic initiatives, particularly in terms of increasing banking profitability?	3.88	1.09	0.65
Leaders in our organization are keen on building relationship.	3.80	0.88	0.68
Leaders in our organization empower employees by providing training	4.02	0.95	0.67
Leaders in our organization are generally considered to exemplify coordination and organizing skills	3.79	0.88	0.59
Grade mean	3.76	0.951	
<b>KMO, Bartlett's Test And Variance Explained</b>			
<i>Eigen values</i>	3.54	2.91	
<i>Percentage of Cvar</i>	29.50	53.75	
<i>KMO Measure of Sampling adequacy</i>	0.89		
<i>Bartlett's Test of Sphericity; Approx. Chi-Square</i>	1686.363, $p < .05$		
<i>Average Variance Extracted</i>	0.55		
<i>Composite Reliability</i>	0.83		

##### 4.2 Sustainable Competitive Advantage

The findings on description of sustainable competitive advantage measures showed that there was a significant competitive advantage of commercial Islamic banking. Following the criterion factor analysis with help of Principal component analysis PCA was carried out. The EFA extracted 1 factor with an Eigenvalue of 2.413 which is above the accepted value of 1 (Yong & Pearce, 2013) and cumulative extracted variance of 56.668%. Thus the items were appropriate to explain the variable. Moreover, from the Table 4.14 below, Bartlett’s Test of Sphericity produced a significant Chi-Square ( $\chi^2$ ) of 2596.24 ( $p < .05$ ) and Kaiser – Meyer -

Olkin measure of sampling adequacy was .915 above the acceptable value of .50 (Field, 2005), showing that it was appropriate to subject data for factor analysis on Sustainable Competitive Advantage (Leech *et al.*, 2013).

**Table 2: Sustainable Competitive Advantage**

	Mean	Std. Dev.	Loadings
Our organization has experienced market share growth	3.98	0.68	0.503
Our organization has experienced profit growth	4.15	0.649	0.702
Our organization has experienced asset growth	4.23	0.552	0.76
Our organization sales has been on an increasing trend	4.32	0.775	0.821
Sustainable Competitive Advantage	4.17	0.664	
<b>Factor analysis</b>			
Percentage of Cvar	32.542	56.668	
KMO Measure of Sampling adequacy	915		
Bartlett's Test of Sphericity; Approx. Chi-Square	2596.24	P<.05	
Average Variance Extracted	0.58		
Composite Reliability	0.75		

### 4.3 Univariate and Multivariate Analysis

Correlation analysis was conducted to test on the strength and extent of association between the study variables. From the results in table 4.18, there is a positive and significant correlation between the leadership and competitive advantage. ( $r = .352, p < .01$ ) which implies that there 35.2% chance of leadership increasing with increase in sustainable competitive advantage. Based on the above results there is an indication of the linear relationship between all predictors on sustainable competitive advantage within Islamic banking, hence there need to perform a more sophisticated model such as multiple regression model to show a cause-effect relationship.

#### Testing of Hypothesis

The study further adopted diverse multiple regression models developed by Hayes (Hayes, 2013) to test the other five study hypotheses. The sections below present the results for the main effects and the interaction effects of the study variables.

*H<sub>1</sub>. Leadership has no significant influence on sustainable competitive advantage of Islamic commercial banks in Kenya.*

The model summary statistics for influence on sustainable competitive advantage of Islamic commercial banks in Kenya revealed that 79.4 variation of sustainable competitive advantage is predicted by leadership. The results of linear regressions, as presented in Table 3 revealed that leadership has a positive and significant effect on the sustainable competitive advantage of Islamic commercial banks in Kenya with a beta value of ( $\beta$ ) = 0.891 (p-value = 0.000 which is less than  $p = 0.05$ ). Therefore, the study rejects the null hypothesis H01 and it is observed that for each unit increase in leadership, there is 0.891 unit increase in the sustainable competitive advantage of Islamic commercial banks. This infers that leadership positively affect sustainable competitive advantage of Islamic commercial banks. The findings agrees with Mauri & Romero, (2013) argument strategic leadership create enabling organizational culture and values that are vital to the success of the organization.

Similarly, Marion & Bien (2007) pointed out that leadership offers a competitive advantage to human systems. Similarly, Harrison (2011) alluded that sustainable competitive advantage depended on the role played by the leadership. Sustainable competitive advantage relies on the dynamic managerial competences in resourcing an organization and the strategic decision-making framework used by an organizations (Beck & Wiersema, 2013). Leaders should be strategic planners who establish the sequence for attaining the goals towards which they are leading followers. The growing role of strategic leadership arouses the stakeholder's craving to understand the impact of the top management team on the performance of the organization (Carter & Greer, 2013). The research findings were also in concurrence with a study by Mauri and Romerio (2013), who concluded that strategic leadership helped in creating an enabling culture and values that catapulted the success of an organization. The study also concurred with findings by Kimaku, Omwenga & Nzulwa (2019), who concluded that leadership commitment had positive influence on the successful implementation of strategic change in Performance of Islamic Commercial Banks in Kenya.

**Table 3: Regression Results**

	Multivariate analysis				Univariate analysis	
	Unstandardized Coefficients		Standardized Coefficients		Pearson correlation	
	B	Std. Error	Beta	t	Sig.	
(Constant)	0.315	0.204		1.544	0.126	.352**
Leadership	0.978	0.051	0.891	19.055	0.000	
<b>Model Summary</b>						
R	0.891					
R Square	0.794					
Adjusted R Square	0.792					
Std. Error of the Estimate	0.2501					
<b>ANOVA (Goodness of Fit)</b>						
ANOVA (F stat)	363.074					
ANOVA (F prob)	.000b					

a Dependent Variable: Sustainable Competitive Advantage

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

### V. Conclusion and Recommendations

This study examined strategic leadership capabilities and sustainable competitive advantage. The findings reveal that a significantly positive effect is present in this relationship, indicating that sustainable competitive advantage is improved when strategic leadership is applied. Leadership was found to have a positive significance on the Sustainable Competitive Advantage of Islamic commercial banks in Kenya. This means that the better the leadership practices an organization subscribes to, the higher the probabilities that the organization realize competitive advantage. It also means that the more skillful the leadership is of an organization, the better the performance the organization realizes. It also implies that return on assets (ROA) and return on investments (ROI) of Islamic Commercial banks in Kenya is positively related to the quality of leadership of the banks, meaning that leadership influences performance in the banking industry. Similarly, the study results meant that top management quality of decision making, their level of expertise and their leadership strategies in ensuring coordination of processes has a direct effect on the level of achieving of competitive advantage and success in the banking industry.

The findings also conclude that leaders in for Islamic banking normally set SMART goals for staff and their aggressive and results oriented which has high probability of improving the competitive advantage of Islamic banking. In addition, based on the findings the study concludes that leaders in banks offering Islamic banking have problem-solving skills, tactical skills, technical skills .and as a result the organization is in a position to be competitive in the industry. Moreover, Leadership in Islamic banking is generally considered to exemplify entrepreneurship and innovation as well as developing staff by leveraging on diversity. The study also incurred that leadership in Islamic banking develop strategic initiatives, particularly in terms of increasing banking profitability and are keen on building relationship. Empowering employees by providing training with exemplify coordination and organizing skills increase chances of competitive advantage for Islamic banking

The study revealed that sustainable competitive advantage in the Islamic banking industry is dependent on the quality of leadership, planning, level of innovativeness as well as the quality of skills by the human resources. It is therefore recommended that the top management of the Islamic commercial banks to embrace good leadership practices, undertake and encourage proper planning, focus on innovation (systems, process, products features, business practices and service market) as well as allocate resources to improve skills of employees so as to realize and sustain competitive advantage.

Based on the findings and conclusion above, the study concludes that to have a stronger competitive advantage for Islamic banking there is need to hire leaders who are knowledgeable and experience in setting SMART goals for staff, aggressive and results oriented. In addition, having leaders who have problem-solving skills, tactical skills, and technical skills will put Islamic banking in a position to be competitive in the industry. The findings showed that developing human capital and social capital has statistically strong and significant effect on sustainable competitive advantage. Strategic leadership capabilities are generally vital for the success of organizations according to the great groups' view of strategic leadership, resource-based and knowledge-based views. The combination of organizational resources, capabilities, and deployed knowledge needs to be developed, and protected in order to enhance sustainable competitive advantage. The theoretical research framework developed in this study also contributes new knowledge to the field of strategic leadership and sustainable competitive advantage. Because the study only focused on the Islamic commercial banks in Kenya, the researcher therefore recommends a replication of the study in other entities like manufacturing, production

sector as well as other service industries in order to establish the relatable trends in regards to strategic determinants of sustainable competitive advantage. Finally, the researcher further recommends future studies to adopt other research designs (e.g. experimental, causal or descriptive research designs) in studying issues strategic determinants of sustainable competitive advantage

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