KEY CAPABILITIES FOR STRATEGIC LEADERS IN LAO COMMERCIAL BANKING SECTOR TO MAXIMISE COMPETITIVE ADVANTAGE

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Abstract: A commonly used approach in western countries, this paper considers the use of strategic leadership in Laos, in particular in the banking sector. The investigation looks at the understanding of banking leaders within Laos and finds many do not join the two terms of leadership and strategy together. The Laos bank leaders at senior level are aware that vision, core competencies and strategies are important to the development of their businesses in what is becoming a more competitive environment. Due to this more emphasis on developing vision and the people responsible must be implemented. Similarly leaders need to have both a short-term and long-term focus in their strategic leadership. The net result is that selection of the right person for the job is of vital importance.

Keywords: leadership, competencies, strategies, capabilities, responsibility

Introduction

The heart and soul of every strategy is to enhance its long-term competitive position and sustain competitive advantage over competitors. Strategic leadership is widely considered as the basic need for creating an effective strategy (Thompson Strickland, & Gamble, 2010). Today banking leaders need to have the right leadership style, especially strategic leadership, to lead their organisation to sustainable competitive advantage and an above-average profitability and financial performance (Alabduljader, 2012; Cherian & Farouq, 2013). This is because leaders are faced with extraordinary new challenges,

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for instance, the emergence of global financial crisis (McConnell, 2013). Modern leaders must learn to think strategically and differently about their roles, capabilities and how to improve them in order to lead their organisation to success over the long-term (Thompson, Strickland, & Gamble, 2010).

It has been identified that the key driver leading an organisation to success is strategic leadership (Hitt, Ireland, & Hoskisson, 2013). Furthermore, strategic leadership is broadly recognised as one of the main drivers of effective strategy execution. Strategic leaders have a huge role in promoting sustainable competitive advantage of an organisation over the long term. Zoogah (2011) affirms that one factor that can help an organisation deal with the global economy is strategic leadership.

According to Daft (2011), success and competitive advantage of an organisation is mainly determined by selection of the top leader. Superior success is not a subject of luck (Grant, 2010; Hitt et al., 2013). The top leader and associated strategic leaders have responsibilities for understanding the environment of their organisation and to consider what may happen in the next five or ten years. This is because strategic leaders are key people who always look forward, set a direction for the future, and push employees to move in the same direction.

For the banking sector in Laos, leadership, especially strategic leadership, also plays a crucial part in providing a superior business performance. As Cherian and Farouq (2013) state, leadership style has a significant impact on the business and financial performance of a bank. This is supported in a study by Alabduljader (2012) who affirms that leadership acts as a process of influencing others’ behavior and directing them to achieve goals.

The competition among commercial banks in Laos has recently increased significantly. This is because the government has created many incentives for supporting both domestic and foreign investors to run businesses in Laos in order to sustain the growth of Lao economy at around 8 percent and above. Those incentives have encouraged many new entities to be established in Laos, especially in the banking sector (Bank of Lao PDR, 2011; Ministry of Planning and Investment, 2011). This has inevitably increased the highly competitive environment among local and foreign commercial banks within the banking industry.

Although Laos is an under-developed country with a small economy having a nominal GDP of US$8,914 million in 2011, projected to be 10,411 million in 2013 (Keomanivone, Somneuk, & Genevieve, 2012), the growth of the banking sector and competition between banks has significantly increased. This caused Laos to have 33 commercial banks in 2013 (More foreign banks opened their doors in Laos in 2013). In addition, the rapid growth caused banking loans to increase around 85% in 2008 and 82.3% in March 2009 (Ministry of Planning and Investment, 2011). This rapid growth has challenged banking strategic leaders in Laos to create effective strategies to manage risks inherent in the growth in order to avoid the mistakes and ineffective strategies that leaders of six leading banks used to apply, such as some form of aggressive growth strategies. These banks include Bank of Scotland, Northern Rock, Royal Bank of

The high competition requires banks to have effective strategies that can increase their growth while managing their risks, leverage, and liquidity (McConnell, 2013). However, to have those effective strategies that can respond with challenges and capture opportunities both now and in the future, banks are required to have sufficient team members with effective strategic leadership that can foresee, anticipate and give the right pathway to a bank and encourage employees to change the status quo if necessary. To do that, it requires banks to have effective teams to create an effective strategic management process in order to promote and sustain competitive advantage to overtake their rivals. This research endeavours to shed light on the capabilities of the strategic leaders to maximise their competitive advantage.

Problem investigated
To deal with the changes and high levels of competition, it requires commercial banks in Laos to have effective strategic leaders to promote and sustain competitive advantage for their banks, especially when Laos integrates into the regional and global markets. This becomes a business problem for the banks that raises the question: How can strategic leaders in the banking sector in Laos promote and sustain competitive advantage for their bank?

Research objectives
The following objectives are designed to achieve the aims:

- To explore the understanding by strategic leaders in Lao commercial banking of the term “strategic leadership”;
- To examine the understanding by banking leaders of the role of strategic leadership;
- To investigate the real practices of strategic leadership in the Lao commercial banks;
- To analyse the difference between the understanding of the banking leaders and the real practices of their banks that are related to the role of strategic leadership;

Literature review

Concept of strategic leadership
The term “strategic leadership” means “the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change as necessary” (Hitt et al., 2013, p. 362). This definition complies with studies by Daft (2011), Hoskisson, Hitt, Ireland, and Harrison (2008) and Ireland and Hitt (2005) who refer to strategic leadership as the ability to predict and envisage the future, sustain flexibility, think strategically, and work with others to initiate changes that can create a competitive advantage for the future of an organization. Strategic leadership refers to individual
behaviours, styles, and skills used to influence others to achieve a successful strategy for an organisation (Zoogah, 2011). Thus, strategic leaders are important leaders in organisations.

Rowe (2001) argues that strategic leadership is an ability to influence people to be voluntary in making day-to-day decisions that can support the long-term viability of companies, while at the same time maintaining their short-term financial stability. The main aspects, which differ from definitions of Daft (2011), Hitt et al (2013) and Ireland and Hitt (2005), are that they focus on the concept of voluntary decision-making that influences staff to make voluntary decisions that will support their companies. Additionally, this definition considers both present and future.

Strategic leadership is about promoting the sustainable competitive advantage and influencing or turning a strategy of organisation into actions. Hughes and Beatty (2005) conclude that leading strategy is about discovery rather than determination. Strategic leaders need to foster strategic leadership in other people instead of only themselves. Strategic leaders have to blend the capabilities of thinking, acting, and influencing to drive strategies as a learning process in their companies.

**Strategic leadership and transformational leadership**

According to the characteristics and tasks of strategic leadership, Hitt et al. (2013) point out that the most suitable leadership style for effective strategic leadership is *transformational leadership*. This is because, firstly, transformational leadership encourages followers to perform beyond their expectations, keep extending their capabilities, and set the interests of companies above their own (Du Plessis & Frederick, 2010). Secondly, based on Hitt et al. (2013), transformational leaders evolve and communicate a vision for companies. They create a strategy to achieve vision, make employees aware of the need to reach excellent outcomes and motivate them to keep striving for higher levels of success. Thirdly, the existing literature on transformational leadership and strategic leadership is primarily based on studies with top management teams or high ranking executives.

Transformational leaders have emotional intelligence that includes self-awareness, self-regulation, motivation, empathy, and social skills. They understand themselves and have the ability to control their moods and think before acting. They are also good at motivating and empathising with others, and have strong international skills (Hitt et al., 2013). Daft (2011) and Du Plessis (2012) state that transformational leadership has a significant impact on subordinates and can potentially renovate an entire company. Transformational leadership relates to abilities to bring about necessary change to vision, strategies, and culture of a company and to enhance innovation in products and technologies. Therefore, strategic leadership and transformational leadership have similar characteristics and are modern leadership styles. Both leadership styles are important for modern leaders.
The role of strategic leadership in promoting competitive advantage for an organisation

Strategic leaders establish a direction for an organisation via vision and strategy (Daft, 2011). Abilities of strategic leaders to effectively make significant changes in aspect such as business processes, products, and services are crucial because decisions and actions of leaders, particularly in the top level, have a major impact on performances and business successes of banks (Guimaraes, Brandon, & Guimaraes, 2010).

Competitive advantage is the most important factor that influences the success or failure of organisations (Cristian-Liviu, 2013) in which strategic leadership is widely considered as one of the key factors to promote and sustain competitive advantage for an organisation over the long term. This is because it enables organisations, especially banks, to respond to several challenges such as financial scandal, high competition, loss of clients’ trust and loyalty, and poor relationships with stakeholders (Wallace, Chernatony, & Buil, 2011). Strategic leadership has a vital influence on competitive advantage and long-term performance. This is because strategic leaders have a role in sharing their power as necessary and are people who encourage employees to work effectively in ambiguous and turbulent environments by providing a vision and pathway that facilitates employees to evolve and innovate.

Competitive advantage of an organisation can end whenever leaders have poor strategic leadership and its rivals have skills to duplicate the benefits of the company’s value-creating strategy. Hitt et al. (2013) add that whenever strategic leaders unsuccessfully respond to changes in the complex global competitive environment, the abilities of an organisation to gain competitive advantage and achieve above-average returns is compromised.

Key capabilities of effective strategic leaders

There are many forces in the banking sector, including new technologies, globalisation, deregulation, and growing competition, that lead to challenging for leaders. These cause banks to have to diversify their businesses into interest and non-interest earning businesses to sustain competitive advantage, for instance, insurance, private banking and asset management. Thus, to succeed promoting competitive advantage for a bank, leaders need to have sufficient key capabilities to make necessary changes.

Capabilities significantly contribute to an effectiveness of strategic leadership. This requires leaders to have certain knowledge (at domestic and international level), skills and individual qualities to cope with both unambiguous and ambiguous situations. However, most of the literature has not yet identified capabilities detail, except in studies by Hitt (1998) and Ireland and Hitt (1999) (as cited in Hitt et al., 2010) who specifically determined the most important capabilities that effective strategic leaders should have in the 21st century.

The study by Hitt et al. (2010) summaries almost all needed capabilities that many researchers have mentioned so far. In addition, this summary is consistent with a study by Boal and Hooijberg (2000) who had already researched studies of strategic
leadership by Hickman (1998), House and Aditya (1997), Hunt (1991), Ireland & Hitt (1999), Selznick (1984) and Zaccarro (1996), and then concluded actions and capabilities that strategic leaders should have are as follows:

- Strategic decision-making;
- Building and communicating a vision;
- Evolving essential competencies and capabilities;
- Developing a structure of an organisation include processes and controls;
- Managing multiple constituencies;
- Making the selection and development of the next generation leaders;
- Maintaining an effective organisational culture; and
- Emphasising ethical practices in an organisation’s culture.

Based on Hitt et al (2010), the authors summarise the essential capabilities that effective strategic leaders, especially in the banking sector, should have to deal with challenges in the 21 century.

**Key Capabilities of Effective Strategic Leaders Model (KCS)**

*Source: Adapted from Hitt, Haynes, and Serpa (2010).*
Methodology

Research paradigms

This study was based on interpretivism as a research paradigm. A research paradigm acts as a group of fundamental assumptions and beliefs that are about how the world phenomena are perceived. It then acts as a thinking pathway that guides researchers’ behaviour (Jonker & Pennink, 2010). There are two major philosophical dimensions to distinguish research paradigms: epistemology and ontology (Du Plessis & Frederick, 2010; Wahyuni, 2012). Based on epistemology, the subjectivist believes that the reality has dependence on social actors. They presume that each actor contributes to social phenomena. In contrast, in terms of social research study, based on ontology, the objectivist believes that the reality and its interpretation are not dependent and internal on social actors.

The use of a qualitative approach in the study of strategic leadership for this research project is considered to be the most suitable, especially in terms of the Lao context, because:

- Qualitative approach focuses on subjective perspectives. As pointed by Bryman (2012), the qualitative approach helps researchers to understand actions associated with the subjective and values inherent realities.
- The nature of leadership is complex. Thus, by using the qualitative approach such as semi-structure interview, it can make participants feel comfortable when he or she is interviewed because the order of questions could be varied depending on the flow of the conversation.
- The target participants (managerial level) are very difficult to reach. Additionally, they are holding specific tasks related to strategies. Thus, by interviewing, the researcher can gain several benefits from interviews such as getting in depth information, developing insights about strategic leadership, gaining informants’ priorities, having flexibility, high response rate, validity, and therapeutic.
- Semi-structured interviews will enable the researcher to have the validity and reliable data for answering the research questions.
- The list of questions was sent to all participants before conducting interviews, thus, participants had enough time to prepare themselves and to get data ready for the researchers.

Data collection

This research project employed only a semi-structured interview method, as a data collection method because the nature of leadership is complex and the term ‘strategic leadership’ is not common in Laos, particularly in the banking sector. This method gives the researchers the opportunity to provide further information to participants who do not understand the questions and terms. This approach assists the researchers to collect reliable information and increases the validity of the results of this study. Taking part in this study are 11 participants who are considered as strategic leaders and working in the commercial banks in Laos.
The personnel departments of the four banks identified, on behalf of the researcher, invited and communicated with potential managers to participate in the project. The criteria for inviting and selecting potential participants were based on the purpose of the study and participants’ tasks and positions. The personnel departments then sent all relevant information such as the information sheet, consent form and interview questions to all potential participants. If they agreed to participate in the study, they had to sign the consent forms, providing contact information and return them to a sealed box in the staffroom. The box was collected by the researchers. After collecting the sealed box, the researchers informed all participants by email or telephone to confirm and scheduled interviews with them. The researchers were then able to interview the participants at a time convenient to them.

The face-to-face interviews were conducted in July and August 2013. The interviews were undertaken bank by bank and person by person in order to make sure that the banks’ and participants’ names were confidential and could not be identified. The interview questions were sent to participants in both Lao and English version in order to enable them to become familiar with the questions. The duration for interviews was around thirty minutes to one hour. The interviews were conducted based on three main topics that were guided by questions.

Results

This study divided the participants into two groups based on the type of shareholders of their banks, such as partly foreign shareholders and fully foreign shareholders. G1 represented the group of leaders who are working for the banks owned by partially foreign and local shareholders; G2 represented the group of leaders who are working for the banks that are sole investments by leading foreign banks. All interviews were related to the experience, role, understanding, and perceptions of strategic leaders associated with strategic leadership matters.

The interview questions were designed for participants who are holding strategic tasks and managerial positions in the commercial banks in Laos. These questions not only helped the researchers to answer the research questions but also to understand perspectives of strategic leaders within the Lao context.

Discussion

The issue of key capabilities of strategic leadership was considered as the first research objective. This is because key capabilities are the fundamentals of effective strategic leaders in leading their organisations to sustainable competitive advantage over the long term. Hence, without certain capabilities, leaders are ineffective.

From the research objectives above, research questions derived to cover these objectives of this research. They are discussed below:

The findings of nine key capabilities answered the research question: ‘what key capabilities of strategic leadership should Lao commercial banking strategic leaders have in order to promote competitive advantage for their banks?’ The findings showed that effective commercial banking strategic leaders in Laos should have at least nine key
capabilities to promote and sustain competitive advantage for their banks, including the
capability to:

1. Develop and communicate a vision;
2. Build dynamic core competencies;
3. Develop and effectively use human capital;
4. Invest and use the development of new technologies;
5. Engage in a strategy;
6. Build and maintain an effective organisational culture;
7. Develop and implement balanced controls;
8. Engage in ethical practices;
9. Create an effective team.

The findings of this research project showed that competitive advantage stems from
the effectiveness of strategic leaders. This is because an individual effective strategic
leader is a crucial element of the top management team to create competitive advantage
for an organisation. However, to be an effective strategic leader, it is necessary for
leaders to have sufficient key capabilities.

The most interesting finding related to vision is that many participants could see the
importance of vision. They said that leaders needed to have capabilities to determine,
develop, and communicate vision to their employees to help them move in the same
direction. In essence, vision should be suitable or achievable and give a clear pathway to
employees. Vision can help an organisation succeed with a strategy. Communicating
vision is also very significant because it can motivate and help employees understand
the right direction and work actively in the same trend.

The capability to build dynamic core competencies was considered as the second key
capability of effective strategic leaders. To compete with rivals, strategic leaders need to
clearly determine what core competencies should be developed further or what new
competencies should be created to make their banks the leader in targeted markets. It is
important for leaders to know what resources, core competencies, strengths,
weaknesses, and competitive advantage of their banks are. Then, they need to know
how to build and promote those elements to sustain competitive advantage.

Leaders need to put the right person in the right job to maximise benefits to their
banks. This capability can help leaders to retain talented staff. Leaders need to know
how to manage, develop and nurture knowledge and abilities of their subordinates.

All participants affirmed that without the capability to engage in a strategy, strategic
leaders could not play their roles well. Strategic leaders are people who should know
strategies, strengths, weaknesses, environment, and direction of their banks. If not, they
cannot effectively work and find opportunities for their banks. Without knowledge on
strategy, leaders will fail to create effective strategies. In addition, strategic leaders need
to know how to formulate and implement strategies in order for them to succeed. They
should also know both the short and long-term plans as well. If not, their short and
long-term plans may not be consistent.
There were six out of eleven strategic leaders that stated that they had not ever heard the term ‘strategic leadership’. The term was not common in Laos. They added that were familiar with hearing separately either the term ‘leadership’ or ‘strategy’, but not the combined term such as ‘strategic leadership’ at the same time. However, five leaders, less than half of all participants, are familiar with and understand about strategic leadership in terms of promoting competitive advantage. The findings on those five research participants answered the research question: *what is the understanding of Lao commercial banking strategic leaders on ‘strategic leadership’ in terms of promoting competitive advantage for their banks?*

The research findings indicated that strategic leaders were expected to promote competitive advantage for their banks. Participants agreed and confirmed that leaders with strategic leadership play a significant role in formulating and implementing a strategy for a bank. Without this leadership style, the effectiveness of a strategic management process may be highly compromised. In essence, leaders in teams will find it difficult to work together to make strategic-decisions. Furthermore, leaders and managers at lower levels cannot support and provide the useful information to the top management team. The research findings indicated that several banking strategic leaders in Laos understand the important role of strategic leadership in terms of promoting competitive advantage for their banks.

Based on the findings of the three key roles associated with strategic leadership in an organisation, the researchers noted that success or superior performance stems from the competitive advantage of an organisation. This situation results from an effective strategic management process. It is from an effective strategic leadership team that a successful management process is directed. Therefore, the researchers developed a Competitive Advantage Model (CAM) as depicted below:

*Figure 2: Competitive Advantage Model (CAM)*

Source: Developed by the authors
All the objectives were met and the research questions answered in this study.

Conclusions

This study concludes and recommends key aspects and models revealed by the research project and their relevance in the banking sector in Laos. The research study focused on investigating how commercial banks promote competitive advantage over the long term through practicing strategic leadership. Collecting data and studying the real practices related to strategic leadership in the commercial banks were carried out in order to develop the practical model. This is to help banking strategic leaders in Laos see the pathway in order to help their banks to promote competitive advantage. This study answered all the research questions with the strong support of the empirical evidence and literature review. At the end, please note some recommendations drafted for Human Resources Management from Laos: all managers should understand what strategic leadership is, pay more attention to the role of strategy in contributing to their banks, and see the crucial importance of the strategic decisions that their strategic leaders make. This would strengthen their contributions to the banks and help them build more of their capabilities as well as those of the banks to promote and sustain competitive advantage over the long term; strategic leaders need to pay more attention to vision, core competencies, and strategies of their banks. This is because they are key people who communicate vision, analyse core competencies, and interpret strategies to employees; strategic leaders should not focus only either in the short-term or long-term performances. They should establish a suitable balance between the short and long-term goals that are consistent to maintain competitive advantage.

References


