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Review Article

Role of Strategic Leadership in the Profitability of Ethiopian Banks: An Analysis of the Ethiopian System of Evidence

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Abstract

Most businesses don't meet their profitability targets because they don't have enough experience or exposure to strategic leadership. This review aimed to investigate the relationship between strategic leadership and the profitability of Ethiopian banks. Strategic leadership skills were examined within the context of the resource-based view to increase banking profitability. The growth of strategic leadership abilities had a big influence on banks' profitability. Risk management, strategic leadership and organizational performance, planning, training and skill development and the unique resources. A review that benefits the underprivileged and unbanked communities in Ethiopia, creates jobs and informs or boosts banking profitability. The efficient use of internal resources by an organization affects its sustainability, profitability and competitiveness.

Key words: Strategic leadership, bank, banking profitability, organizational performance

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INTRODUCTION

Stakeholders must understand how strategic leadership impacts an organization's performance¹. Stakeholders usually hold top management teams accountable for the success or failure of corporate organizations due to their high expectations, regardless of other factors¹. Strategic leadership can have a significant positive impact on performance, organizational learning and strategic decision-making². Staff morale suffers and the organization suffers financial losses as a result of strategic leadership failures¹. The competitiveness and profitability of a company are significantly influenced by the strategic leadership tactics and leadership philosophies of its top management teams^{1,3}.

Strategic leadership, competitiveness, sustainability and performance all depend on the Resource-Based Vision (RBV), which top leaders may leverage to the fullest extent possible⁴. Senior management teams with entrepreneurial leadership traits can make strategic business decisions that can significantly affect organizational performance, competitiveness and sustainability^{3,5}. The effectiveness of an organization's senior management teams and its financial performance can both be impacted by strategic leadership⁶. The success of business organizations is impacted by both external factors and a multitude of complex relationships within its numerous components¹.

"Effective leadership facilitates followers' following and effective "followership" facilitates leader's leading"⁴.

Leadership has a long history that dates back to the beginning of human society. Leadership studies have an impact on many aspects of human behavior, especially those concerning economics, politics, the military, management, communication and decision-making. As a result, the number of people who have attempted to define leadership is almost equal to the number of definitions that exist. Several tools and methods for assisting scholars and leaders in advancing the "art of leadership" have also been brought to our notice. Among these is the Leader-Member Exchange (LMX) construct^{4,7}. The vertical dyad linkage (VDL) approach or Leadership-Making model, was its original name. Based on a variety of "exchanges" that demonstrate how leaders handle their followers or subordinates, the LMX theory's central tenet is that leaders can develop unique, high-quality relationships with each of their followers.

Higher quality LMX connections are often connected with better follower outcomes (such as job satisfaction, job dedication and performance) and vice versa, according to prior research on LMX⁸⁻¹⁰.

The modern banking sector must always work to raise the caliber of its goods, services and operational procedures due to fierce competition and quick changes in the market. Employees also need continuous training and growth. The "quality of service", which is characterized as the general proficiency of communication between banking officers and bank clients, is given special attention by financial institutions. It suggests sensitivity, friendliness and proficient verbal and nonverbal communication abilities¹¹.

Leadership studies show a favorable correlation between the implementation of a leadership style, followers' job satisfaction (and performance) and an organization's profitability^{6,10-12}. This raises the following question: Is there a relationship between the operational profitability of banks and the LMX coefficient, which measures the leader-follower dynamic?

Even though there are a myriad of different leadership theories that have emerged in the last century, the original theories of leadership focused on identifying characteristics that distinguished leaders from followers. In later theories of leadership, other aspects were studied, including skill levels and situational considerations. With regard to leadership and performance, various theories have been proposed over time. Leadership theories can be broadly classified into two categories: Analytical theories that aim to explain concepts and prescriptive theories that are linked to organizational performance. Nevertheless, classifying all of the hypotheses as entirely falling into a single category is not always easy^{13,14}.

A bank is a company that provides financial services, including managing transactions, creating credit, taking deposits, lending money and issuing various forms of currency. Banks serve as hubs for the mobilization of financial resources and as financial intermediaries in the global economy. Banks are essential to economies because they implement monetary policy and provide a means of facilitating payments for goods and services in both domestic and international trade.

Methodology: The review utilized a systematic literature review methodology, which offers a transparent, trustworthy and replicable strategy to minimize bias and generate more reliable outcomes for the evaluation and interpretation of past research relevant to a certain subject¹⁵. The evaluation was based on a thorough analysis of relevant literature, including reports, policy papers and research publications and it employed criteria to direct a systematic review approach¹⁶. Conclusions about the impact of strategic leadership to the profitability of Ethiopian banks were established after a review and comparison of the findings from multiple empirical studies.

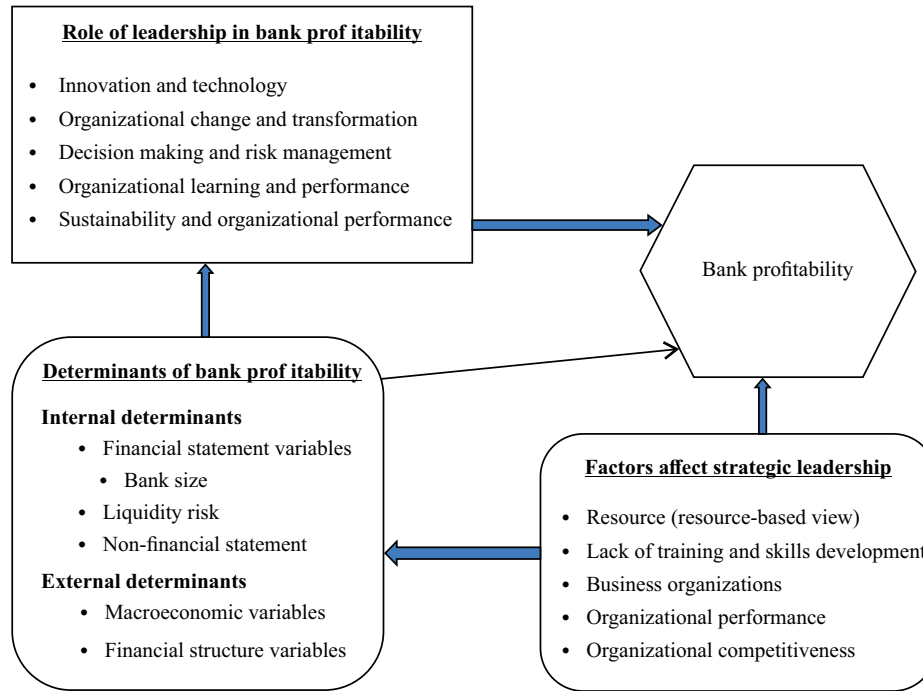


Fig. 1: Conceptual framework

Source: Own development (2024)

Conceptual framework of the review: The conceptual framework that follows has been developed for review by reviewing relevant empirical material and theories. The conceptual framework encompasses variables that are classified as internal and external factors that affect bank profitability and the role of leadership in it. These variables include innovation and technology, organization change and transformation, decision making and risk management, organizational learning and performance, sustainability and organization performance and others (Fig. 1).

DISCUSSION

Banking profitability: Banking profitability defined as revenue over operating costs¹⁷.

Entrepreneurial capability: Entrepreneurial capability is the capacity to do a task or activity that facilitates the accomplishment of organizational endeavors¹⁸.

Organization competitiveness: Organizational competitiveness is the edge that makes a company stand out from the competition¹⁹.

Organization sustainability: Organization sustainability is the process of integrating and balancing the economic, social and environmental components of operating a company²⁰.

Strategic leadership: The ability of the senior management team to create a vision and mission, think and act strategically and design an organizational competitiveness plan²¹.

Resource-based view: Using the resource-based paradigm gives managers a competitive advantage and can increase profitability⁴.

Top management team: Refers to the group of individuals responsible for managing the organization's operations and formulating strategic plans^{11,12,20}.

Transformational leadership: The transformational leaders are those who foster mentorship, make the most of their team members potential and inspire them to dedicate themselves to the goals of the organization^{18,22}.

Role of banks: Capital markets are beset by the agency dilemma and information asymmetry. The phrase "agency problem" more broadly refers to the disparities in incentives between savers and borrowers as well as the incentives of agents and principles²³. In the event of a financial crisis, borrowers may be more likely to alter their behavior and take on more risk than savers are willing to accept because of their limited responsibility. People have to spend a lot of time, effort and money keeping an eye on the borrowers' actions.

Banks are able to pay lower monitoring and transaction costs than individuals, which makes financial intermediation often beneficial in inefficient markets. Results of economies of scale and scope in banking also include the maturity transformation function, which is an important aspect. The short-term savings that depositors give banks are subsequently transformed into long-term loans to borrowers by the banks. Provided depositors keep some cash and liquid assets on hand, banks may allow daily withdrawals from customers. Assuring the liquidity of their obligations to depositors—who can withdraw their money at any time without it losing value—banks offer a unique form of financing that allows them to offer long-term credit^{22,24}.

Compared to capital markets, banks can accomplish maturity changes at a cheaper cost. Individual investors cannot diversify the risks associated with price, credit and liquidity like institutions can. Since depositors do not close their accounts all at once, banks only keep a modest amount of money in liquid cash. As a result, banks distribute the liquidity risk among a large number of savers. While it remains unlikely that individual savers would ever be able to withdraw their funds without running out of liquidity, they can diversify their investments by lowering the risk of credit and price.

Theories of bank profitability: Research on bank performance began to use two industrial organization models in the late 1970s and early 1980s: The Efficiency Structure and Market Power theories²⁵. Furthermore, the balanced portfolio theory has made it easier to grasp bank profitability research^{25,26}. Consequently, this section goes into great detail about each of the ideas mentioned above as well as other ideas connected to bank profitability and its drivers.

Market power theories: The market power theory states that a bank's performance is influenced by the market structure of the industry²⁷. The market power hypothesis is composed of two distinct ways: The structure-conduct-performance (SCP) and relative market power (RMP) hypotheses. According to the SCP technique, banks could become more profitable because of their potential to acquire market power as a result of the level of market concentration in the banking sector. Because they can charge higher loan rates and lower deposit rates due to monopolistic or collusive activities (explicit or implicit), banks in more concentrated markets—regardless of their efficiency—are more likely to produce “abnormal profits” than companies in less concentrated markets. Unlike the SCP, the RMP hypothesis contends that market share has an impact on bank profitability. It's widely believed that large banks can

only influence prices and increase profits by providing distinctive goods. Due to their market dominance, they can make profits that are not competitive^{24,27}.

Efficiency theory: The efficiency theory states that manufacturing can be most advantageous when economies of scale are achieved. At an output level where all feasible economies of scale are being utilized, optimal operational efficiency is thereby achieved in the short run²⁸. Moreover, the efficiency theory makes it clear that banks that are efficient can have excellent financial results and favorable market shares, which in turn results in higher profit margins^{23,28,29}. Moreover, the “Efficiency Structure Theory” contends that banks that exhibit greater efficiency than others stand to gain financial advantages. Large banks do better than small banks in terms of production technologies and management, which allows them to lower operating costs and increase profits, according to the efficient structure theory³⁰. The efficiency hypothesis is validated when there is a noteworthy positive correlation between market share and profitability^{24,26,31}.

Balanced portfolio theory: The portfolio theory technique is the most significant and applicable when it comes to bank research³². The optimal holding of each asset in a wealth holder's portfolio is determined by policy decisions based on various factors, such as the size of the portfolio, the risks associated with owning each financial asset and the rates of return on all the assets held in the portfolio, according to the Portfolio Balance Model of Asset Diversification. It implies that the desired diversity and composition of commercial banks' portfolios are the result of decisions taken by bank management. The possibility for earning maximum profits is also impacted by the management's choice of a feasible set of assets and liabilities as well as the unit costs incurred by the bank in the creation of each asset component^{32,33}.

Determinants of bank profitability: Banking studies have mostly concentrated on industrialized countries, with SSA and a smaller number of developing nations receiving less attention, based on the empirical evidence that is currently available. Because of this, there is insufficient data to look at the variables affecting bank performance in Sub-Saharan Africa³³. The classification of factors influencing bank profitability is theoretically based on three indicators: Macroeconomic, industry-specific and bank-specific. Bank-specific metrics include growth in assets, sufficient capital, efficiency in operations and liquidity. The common measure employed in all studies to establish an industry-specific representation is bank concentration.

On the other hand, GDP growth, GDP per capita, inflation expectation, interest rate and its spread are the main macroeconomic factors. The many methods for examining bank profitability in relation to these aspects are provided by the empirical data. Macroeconomic variables and determinants at the bank level also have a considerable impact on bank profitability, according to a large share of empirical research. However, little evidence suggests that factors unique to a certain industry have an impact on bank profitability. Because of this, the research's sole methods for estimating profitability were macroeconomic and bank-level data. Profit-determinant variables often belong to one of two basic categories: External or internal causes (variables).

Internal determinants: The terms "internal determinants of commercial bank profitability" refer to the factors that are under management's control and that account for variation in firm profitability in relation to external conditions. The variables that are affected by a bank's management decisions are known as internal drivers of bank profitability^{32,34}. Variables found in financial accounts and variables found in non-financial statements are the two primary subcategories of internal determinants. The main sources from which the financial statement variables are derived are the components found in the bank's balance sheet and profit and loss statements. On the other hand, nonfinancial statement variables are those that are not specifically shown on the financial statement accounts^{30,32-34}.

Financial statement variables: The financial statement variables are those that are associated with the balance sheet and profit and loss account. The asset, liability and equity balances are displayed in the balance sheet account to illustrate the company's financial status. Asset management focuses on choosing assets for a portfolio with the goal of maximizing returns while preserving a certain level of liquidity. Liability management, on the other hand, is concerned with choices about capital, borrowing and deposit mix that satisfy the twin goals of generating a desired degree of stability in available funds and lowering funding costs³⁴⁻³⁶. Consequently, decisions made about the asset-liability portfolio will surely have an impact on commercial banks' profitability. These decisions are considered internal determinants as they are controllable. The profit and loss statement, on the other hand, is closely linked to the income and spending accounts and demonstrates the management's operational success. The amount of interest revenue, interest expense, income from fee-based services and noninterest operating expenses would be the only areas of the profit and loss statement that would receive significant attention. Determining the profitability of commercial banks through financial statement variables

generated from profit and loss accounts and balance sheets has been the topic of a great deal of research. The most often utilized measures that are obtained from financial statements to assess bank profitability are listed below.

Bank size: Most of the research illustrates how bank size affects profitability based on total assets. The idea of size is used to recognize that bigger banks are better able to benefit from economies of scale in transactions and turn a profit than smaller banks^{37,38}. Bank policy is heavily influenced by the question of which size best maximizes bank profitability. Increased bank size has been demonstrated to have a relatively positive effect on profitability³⁹.

Therefore, a favorable association between bank size and profitability is anticipated by many banking area academics. On the other hand, institutions that become extremely huge due to bureaucratic and other causes may suffer from size. It is possible to predict a non-linear relationship between size and profitability as a result. Therefore, the majority of research uses the banks' real assets expressed in logarithm and square to account for potential non-linear correlations. The data show a favorable correlation between bank profitability and size^{39,40}.

Liquidity risk: The liquidity risk is a different type of risk that banks encounter; when they have less liquid assets, they are more vulnerable to large deposit withdrawals. Stated differently, liquidity risk is the chance that a bank will not be able to cover its declining commitments or asset growth. Liquidity risk is the possibility that an asset cannot be converted into cash or that doing so will be costly^{37,39-41}. The chance that an asset's sale price would fall short of its purchase price is known as price risk, they continue. In determining the profitability of banks, it is considered a pivotal aspect. Liquidity risk is therefore measured by dividing liquid assets by client deposits and other short-term funding. Inadequate liquidity is a major contributing factor to bank crises⁴². When anything can be easily turned into cash with little to no risk of loss, it's referred to as liquid. A bank is considered liquid when it has sufficient cash and other liquid assets, as well as the capacity to quickly raise more funds from other sources. This allows the bank to meet its payment and financial commitments on time³⁹⁻⁴².

Non-financial statement variables: The non-financial statement variables are those that affect financial statement items indirectly but are not represented directly on the financial statement accounts. This category takes into account the age of the bank, the number of branches and the caliber, effectiveness and productivity of the managers, among other things⁴³.

Management quality: A bank needs to run its banking institution effectively in order to become profitable and stable. It has been shown that effective management raises profits and market shares⁴⁴. Conversely, when management quality is low and managerial monitoring is insufficient, some lazy workers won't give their tasks their all and they might observe that the competent workers who are left become less motivated to come to work. The whole cumulative effect will eventually reduce profitability. Similarly, asserts that when there is inadequate management quality and the board of directors does not exhibit genuine and competent leadership, they often get fixated on securing credit facilities for themselves, which makes it hard for them to follow responsible lending standards. Overall, this increases the percentage of bad debts in the bank's credit portfolio and decreases the bank's profitability⁴⁵.

According to the research, two metrics that are particularly indicative of the caliber of banking management are the non-interest expenditure over total assets ratio (NIEA) and the cost to income ratio (CIR). The first rate demonstrates how the management is able to operate the banks' daily operations at a lower expense. Consequently, the bank's profitability is positively impacted by a lower value of this indicator. The second rate, also called the cost to income ratio, shows how much money the bank can afford to spend for overhead by dividing total income by operational costs. We do expect a negative relationship between the cost to income ratio and bank profitability.

External determinants: The factors outside the control of management that affect the decision-making process of the bank are referred to as external factors. However, by examining the outside world for anticipated changes, managers can set up their company to benefit from these changes. Financial structural concerns and macroeconomic difficulties are the two primary areas of external effects.

Macroeconomic variables: The macroeconomic conditions have the potential to significantly affect bank performance. Demand for bank loans is higher during economic expansions than it is during recessions. During periods of stronger growth, credit risk may decline since profitability increases during economic expansion, bolstering the borrowing firms' ability to service their loan. On the other hand, negative growth rates negatively impact the operations of banks due to the rise in non-performing loans. It stands to reason that higher growth rates should result in better bank performance and vice versa. It illustrates how growth rates have a favorable effect on banks' profits⁴⁶⁻⁴⁸.

A bank's profitability is influenced by growth rates as well as interest rates. Banks are frequently more profitable as interest rates rise because there is a greater differential between the rates at which people save and borrow money. Empirical study indicates that interest rates positively influence bank profitability⁴⁹.

Financial structure variables: Several studies have attempted to investigate the impact of financial structure variables on bank efficiency. A higher ratio of bank assets to GDP usually indicates that financial development is essential to economic expansion. The significance of financial development to the economy may serve as a catalyst for potential new entrants and indicate an increasing need for banking services. In addition, banks need to reevaluate and modify their strategies to maintain market share in the event that industry competition heats up. Despite highlighting the importance of financial development and structure drivers, they maintain that in highly competitive banking sectors, banks become less profitable when their assets to GDP ratio is relatively high due to smaller margins⁵⁰. The banking sector performed less well and costs were lower in countries with less developed financial systems. Therefore, these countries' efficiency may be greatly increased by financial development. Positive correlations were found between GDP growth rates and bank profitability^{48,49}.

Additionally, market structure has a significant effect on the profitability of banks. Banks have higher monopolistic power in banking businesses where industry concentration is significant. The bank is more profitable as a result of its dominant position in the market. Industry concentration positively affects the profitability of banks^{28,32,51}. Industry concentration and bank profitability, on the other hand, are found to be negatively associated^{12-14,45,50-52}. Further, maintained that there is no correlation between bank profitability and industry concentration^{50,53}.

Role of leadership in bank profitability in Ethiopia

Organization change and transformation: The utilization of the stakeholders' framework of analysis in addition to stakeholder analysis is necessary for enhanced organizational performance⁵⁴. In terms of project management, stakeholders are individuals or groups that possess the power to impact a project and vice versa. To appreciate the complexities of the company-stakeholder interaction in an ongoing manner, the project manager must do a stakeholder analysis^{9,12,55}. There are a number of obstacles to overcome in stakeholder analysis, including the lack of appropriate rules for identifying, categorizing and obtaining cooperation from stakeholders^{21,56}.

Innovation and technology: Innovation is a multifaceted phenomenon⁵⁷. Changes in organization development and other non-technology improvements have a significant impact on organizational competitiveness. Two other non-technology success criteria are a sustainability strategy and process improvement⁵⁸. The crucial function that research plays in producing fresh information that might help businesses update their practices⁵⁷. In order to guide future research in the field of management innovation for improved organizational performance, theory development is required⁵⁷.

All organizations, including banks, are finding that providing excellent customer service is an increasingly dynamic issue⁵⁹. To stay ahead of the curve and attract new customers, banks can use their insight into customer needs to innovate and deliver top-notch customer service as competitive advantages. Certainty, empathy, consistency, receptiveness and tangibles are among the criteria that are reliably used to quantify subjective quality. For other aspects like consistency, attractiveness and accessibility, consumers rate banks reasonably well, but for receptiveness, they rate them extremely poorly. Relative to customer service and service quality, the impact of social and psychological factors-like religious and cultural affiliations-was not considered⁵⁹.

An organization's ability to operate effectively, acquire top-notch human resources and accept new technologies all influence how well it performs^{42,60}. The performance of an organization is influenced by its capacity for innovation, effective execution and human resource management⁶⁰. Recognizing the influence of performance structures can help leaders with a high level of meticulousness improve both performance and customer happiness^{21,45,60,61}. Successful leadership strategies and work satisfaction can boost an organization's competitiveness, employee well-being and job happiness⁶¹.

Decision making and risk management: The senior management group and the CEO are jointly in charge of strategic leadership. The objective of strategic decision-making is to increase the organization's sustainability and competitiveness⁶². Most CEOs would rather use their discretionary leadership skills to make strategic decisions without the support or participation of the senior management group. While strategic leadership and most performance are shared by the CEO and senior management team. In order to assist top management teams in enhancing their knowledge management abilities, they need to have the authority⁶².

Weighing dynamic options that mostly depend on the decision-maker's conceptual framework is a necessary step in

the decision-making process⁶³. The senior management team's attributes may influence the way choices are made inside the organization⁶⁴. The CEO and other members of the senior management team have a significant influence on an organization's performance. The performance of the company is also significantly impacted by the decision-making abilities, emotional intelligence and social media presence of the CEO^{17,64}. Scholars are still at odds over what factors influence businesses' strategic decision-making and produce results that are similar in various industries^{40,63}.

The development of an integrated risk management system that provides management with a comprehensive awareness of risks can enhance organizational performance and competitiveness⁶⁵. Top management team performance can be improved by integrating risk and business management techniques⁶⁶. Strategic management roles such as risk management are mainly overseen by the board of directors and upper management teams. Risk management involves developing a risk governance structure, putting procedures in place and keeping an eye on things to make sure the company is being adequately safeguarded^{66,67}. Employee participation in risk management training should be promoted in order to raise risk awareness. To increase staff members' comprehension of risk management protocols, senior leadership groups might rely on risk management education⁶⁶.

Organizational learning and performance: Understand the impact of leadership succession on financial and social outcomes⁶⁸. Reputable connections raise the chances of success for the CEO's successors⁶⁸. A successor may be produced by the company or by someone outside it. There are advantages and disadvantages to both internal and external successors. External successors will likely usher in a new paradigm that enhances organizational performance. On the other hand, internal successors gain from having simple access to the organization's current networks and relevant experience.

The executive management group is more likely to approve of and face less resistance from an inside replacement. According to the theory put forward, changes in leadership due to internal or external succession are correlated with organizational performance. Successful internal succession is a common occurrence in family businesses and this is predicted to enhance organizational performance. However, external succession is well-known and successful in government and public corporations. The significance of a CEO's academic and professional credentials in the work was not covered⁶⁸.

Organizational learning is a continuous process, thus it could take some time for it to completely permeate everyday operations⁶⁷⁻⁶⁹. Differing planned from spontaneous organizational learning activities is essential for ensuring the long-term sustainability of businesses. On the other hand, an organization's performance might suffer greatly if organizational learning is not institutionalized⁷⁰.

A large pool of skilled employees could increase a company's competitive advantage^{23,69}. The performance of an organization and all of its processes could be affected by the institutionalization of process flexibility and strategy renewal⁷⁰. The main target audience for organization learning frameworks is, regrettably, enormous business enterprises. Thus, a framework is necessary for small and medium-sized enterprises.

Sustainability and organization performance: Having a clear vision and mission statement are critical strategic imperatives that help executives focus organizational performance⁷¹. As a result of dynamic innovations and efforts to stay ahead of growing competition, a rising number of CEOs have lost focus on core business strategies⁷⁰⁻⁷³. Absence of a clear strategic perspective could hurt the organization's performance. How successfully a firm can offer a unique value proposition to its customers influences how successful it is. The CEO's ability to effectively carry out the role of defender of the company's goal and vision is a major factor that could influence performance⁷³.

The positioning of an organization is facilitated by its leaders and strategy, sustainable development and competitiveness establish and maintain distinctiveness⁷¹. The position of leadership determines an organization's position. Examining the tactics that executives could use to establish enduring business practices is vital to ensure the success of the corporation in the long run⁷⁴. By employing three distinct musical genres, leadership techniques conform to the conservative autocratic approach, which concentrates all authority and decision-making in the hands of one person. According to them, a business environment that moves quickly is not suitable for an autocratic and conservative leadership style. As they help leaders navigate a complex and uncertain environment, adaptive and flexible leadership styles are essential for modern, progressive organizations. Leaders need to cultivate organizational cultures that facilitate the advancement of highly qualified employees⁷⁴.

A lack of flexible business practices and a sustainability plan is likely to hinder an organization's capacity to compete effectively⁷⁵. Adaptable and sustainable businesses have the potential to outperform their competitors in the long run and endure the intense, dynamic, global competition that they face. In order to secure long-term survival, businesses must

develop and implement flexible business procedures in addition to sustainable strategies in their daily operations⁷⁶. A healthy organizational culture, management, employees' creativity and senior management's ability to balance sustainability and profitability may all have an impact on performance and competitiveness⁷⁷.

The competitiveness and long-term success of Singapore Airlines have been impacted by its ability to resolve internal organizational problems on a domestic and international level⁷⁷. Singapore carriers have overcome the usual challenges faced by the majority of carriers, despite intense rivalry in the aviation industry. The airline attributes its success to the implementation of a twin strategy that brought together customer-centered innovation and effective cost control, staff and management multitasking, worldwide service standards and innovation and experience in customer service.

Factors affect strategic leadership to enhance banking profitability

Resource-Based View (RBV): The Resource-Based View (RBV) is an essential element of competitiveness, sustainability, performance and strategic leadership that assists senior executives in optimizing their resources⁴. The RBV theory was developed in 1984 by Wernerfelt⁷⁸, who argued that an organization's sustainability, profitability and competitiveness are all greatly impacted by the notion. One of a company's competitive advantages is its ability to produce better value⁷⁹. Therefore, an organization's ability to coordinate the use of its resources, including the greatest possible use of its business prospects, is what gives it a competitive advantage⁸⁰.

Top bank executives can use the RBV conceptual framework to optimize resource usage and develop better business strategies. Integrating the RBV with the entrepreneurial and strategic approach may lead to increased banking profitability. The RBV is another useful tool that top management teams can use to articulate how they plan to apply strategic leadership skills to boost their banks' profitability. Strategic, varied and company-specific resources give a firm a competitive edge that is difficult to imitate^{81,82}.

Chief financial officers use the uniqueness of their resources to explain why different companies perform differently. Consequently, the distinctiveness of an organization's resources has a significant impact on its efficiency, profitability, competitiveness and sustainability. There have been notable advances in the fields of science, entrepreneurship, international business, marketing and economics, including human resource management⁷⁸. The RBV hypothesis, Strategic Leadership and Organization Profitability are correlated. Based on the RBV, the study was able to match the strategic leadership role with the profitability of banks^{70,74,80}.

Training and skills development: The majority of organizational executives find it challenging to develop their staff members' leadership abilities⁸². The importance of using experiential learning strategies to support the development of leadership abilities and skills was covered by Lopes *et al.*⁸². Employees can enhance their leadership competencies by using diverse leadership approaches in the workplace, eliminating the need for them to undergo formal leadership education⁸². They employ the experiential learning theory, gaming and simulation techniques and systematic review to conduct the study. There is still more to be done in terms of simulating leadership development through video games. Despite significant advancements in the development of leadership abilities, computer simulations remain merely instruments and cannot completely replace human leadership⁸². Businesses may benefit from experiential learning by developing their leadership capabilities⁸³.

The development of leadership abilities is crucial for both organizational competitiveness and performance improvements⁸⁴. Strategic leadership qualities are necessary for leaders to successfully traverse a foreign business environment by thinking and acting strategically^{80,83,84}. A range of approaches, including self-initiated courses and formal education, can be used to improve strategic leadership talents⁸⁵. There are more tactics, like seminars and executive leadership development programs⁸⁵. Aware and adept at spotting opportunities and threats pertaining to their organizations, those with strategic leadership qualities⁸⁶.

Organizational leaders can develop their strategic leadership skills by creating a learning environment, coaching, job rotation and mentoring^{81,86}. Learning should be a fundamental part of an organization's culture in order to build strategic leaders.

Effective leadership is characterized by a work environment free from the fear of consequences for mistakes, where individuals may learn by doing and are encouraged to be imaginative and creative⁸⁶. Programs for executive leadership development should provide participants' demands for leadership training top priority and include a feedback system. When making judgments, skilled strategic leaders appreciate diversity, question the status quo and take into account a range of opinions, some of which conflict with one another^{12,24,49,84-86}.

Competent leaders are not only adept at responding to opportunities and problems, but also in evaluating, deciphering and comprehending the effects of a complex environment on the business⁸⁶. Competent leaders are able to weigh multiple options and make quick judgments with careful consideration, especially when there is limited

information available⁸⁶. The company's medium, long and short-term goals are also taken into consideration. Among the traits of strategic leaders are effective communication, emotional and social intelligence and the capacity to harmonize the objectives of the business and stakeholders^{4,15}.

Business organizations: Strategic leadership is the ability to predict the future of the organization. Strategic leadership also includes motivating subordinates to accomplish the organization's goals and communicating its vision⁸⁷. A company's enabling culture and values can only be developed if its strategic leadership role is fulfilled⁸⁸. The culture and output of an organization can be influenced by psychological processes, innovation and leadership principles^{3,4,86}.

All choices made by a single person or group of people at the top of the company, as well as all operations, are included under strategic leadership. Leaders should be strategic planners who map out the course for accomplishing the goals that their followers are following. Stakeholders are becoming more curious about how the senior management group affects the organization's performance as strategic leadership gains importance^{3,4,86}.

There are several explanations available to top executives for why they are unable to reach performance targets^{1,45,66,79}. There is still a belief that leadership is the answer to every issue that confronts humanity. The bulk of leadership failures are caused by the dominant ring type of leadership, which is the most common conventional leadership style⁸⁹. Solving workplace issues requires research into the finest leadership philosophies for contemporary firms. The traditional hierarchical structures of the "know-it-all" leader are one of the things that prevent leaders from addressing difficulties that face their organizations^{1-4,54}.

Organizational performance: Competitive advantage and organizational performance are closely intertwined^{10-12,85}. The RBV theory is predicated on maximizing the use and combination of unique internal resources and competences for improved organizational performance³. The expansion of the country's banking system is crucial. For banks to continue operating, they must grow their clientele and make a profit. Profitability is a key performance indicator in the banking sector⁸⁷⁻⁹⁰. Bank profitability is primarily determined by interest, trading and fee income^{3,4,13,45,68,82}.

In order to ensure that costs associated with generating income are not greater than revenues, the board and higher management teams have a responsibility to develop strategic and operational protocols⁹⁰. Profitability in banking is the ability to generate income over costs³.

Organization competitiveness: Marketing, creativity and innovation must be incorporated into strategic planning for a company to stay competitive⁹¹. Additional factors that significantly influence organizational competitiveness include a sizable pool of seasoned workers and a vast internal and external knowledge network⁹¹. The most important part of technology management is how quickly technological solutions are delivered to fulfill business objectives. The long-term building of profit-making capacity is the primary concern of strategic leadership and resource optimization³. A sustained innovation plan and strategic renewal capabilities are necessary for the senior management team to remain competitive^{91,92}.

Top management uses the shifting requirements of their clientele to position their brands in the market as technology advances⁹³. In order to enhance their competitiveness, top management teams of public, private, local and international banks might develop positioning strategies⁹³. Quality measurement is another tactic banks employ to differentiate their products from those of rivals. The quality of banks' offerings and degree of customer care may have a significant influence on their strategic positioning in the market^{45,93}. Banks might improve their positioning strategies via a range of tactics, including as lower-cost technology, staff training and operational supremacy.

While there are disagreements on the definition of a strategy, most organization leaders concur that it is an essential part of corporate management^{94,95}. The only differences between different organizations' strategies are the approaches they choose to create, carry out and evaluate them. A successful plan needs to take into account a variety of methods and perspectives⁹⁵. The primary topics that need to be clarified beforehand are the contents of the strategy, the planning procedure, ingenuity and creative thinking, which includes reviewing and evaluating the strategy.

The continuous promotion of creative business ideas should follow the changing trends in the industry⁹⁴. Organizational leaders utilize business strategy to tackle current and future business challenges⁹⁵. A plan helps to clarify the techniques and strategies that the leaders might apply in order to maximize the potential of the resources in the present and the future. A well-executed plan might allow the business to compete in its specific market³. Although competitiveness is critical to organizational performance, most senior management teams lack the skills needed to develop and implement an effective competitiveness strategy¹.

A company's competitiveness and positioning are improved when top management teams use sustainability¹². As with any successful organization development project, staff

involvement is essential to a successful sustainability plan^{23,45}. Companies must embrace ongoing innovation if they are to compete successfully⁷¹. Additionally, there was no discussion of a framework that small and medium-sized enterprises could use to develop a sustainable strategy.

CONCLUSION

This review aims to investigate the relationship between strategic leadership and the profitability of Ethiopian banks. It is now obvious that a company's strategic leadership has a major role in determining its profitability, competitiveness and sustainability. The ability of the board of directors and senior bank officials to organize and direct the organization's operations has a significant impact on the competitiveness of the company. Most organizations fail to achieve the required profitability because of a lack of exposure to and expertise in strategic leadership. When top management teams use the resource RBV conceptual framework, organizations can function more effectively. The efficient use of internal resources affects an organization's profitability, sustainability and competitiveness. It is imperative that all stakeholders comprehend the influence that strategic leadership competencies have on an organization's overall performance.

SIGNIFICANCE STATEMENT

The result of the new study is only an amalgam of the findings of related earlier studies that failed to demonstrate the statistical significance of the elements found in relation to the function of strategic leadership in Ethiopian banks' profitability. Thus, by including the statistical consequence conclusion of changed features, researchers in the future will be able to perform behavior-related studies. Therefore, the investigator suggested that the outdated information about the role of strategic leadership in a country's bank profitability be reviewed, taking into account the recent dynamic business environment. This means that the majority of previous studies' findings focus on the role of strategic leadership in the profitability of Ethiopian banks, with unresolved issues.

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