African Journal of Business & Development studies Volume 1 Issue 2 2025
ISSN: 3079-6903
DOI: https://doi.org/10.70641/ajbds.v1i2.111

AFRICAN JOURNAL OF BUSINESS AND DEVELOPMENT STUDIES

AJBDSresearchjournal@usiu.ac.ke
journals.usiu.ac.ke

Operational Risk Management and Financial Performance of Forex Bureaus in Nairobi County, Kenya

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Cite: Otieno, O., & Kirma, LK., (2025). Operational Risk Management and Financial Performance of Forex Bureaus in Nairobi County, Kenya.*African, Journal of Business & Development Studies*,1*(2),* 307–321. https://doi.org/10.70641/ajbds.v1i2.111

Abstract

Forex bureaus function in an environment marked by various financial uncertainties that heavily influence their economic outcomes. In the modern era, these entities have encountered multiple incidents that have introduced financial challenges. The importance of establishing effective risk management approaches became evident following the downfall of major firms such as WorldCom and Enron, highlighting the necessity for businesses to safeguard themselves and their stakeholders from diverse financial dangers. This research sought to investigate various critical components of financial risk management within Forex bureaus. The main goals were to analyze how operational risk management affects the financial outcomes of Forex bureaus in Nairobi County, explore the role of credit risk management in shaping their financial results, evaluate the effects of liquidity risk management, and assess the impact of market risk management. The study was guided by four theoretical frameworks: Extreme Value Theory, Theory of Liquidity, Credit Theory, and Capital Market Theory. The target population consisted of 74 Forex bureaus, encompassing CEOs, Managing Directors, and middle management staff. To ensure a representative sample, the Yamane formula was used to determine a sample size of 210. The researcher utilized a stratified sampling technique. The research utilized a mix of both primary and secondary data gathering techniques. The evaluation process included an initial review, descriptive statistical analysis, and inferential methods such as correlation analysis and regression modeling. The results indicated a relationship between financial risk management practices and the financial performance of Forex bureaus in Nairobi County. It was evident that credit risk management impacts financial performance ($\beta=0.321$; $p<0.05$), liquidity risk influences financial performance ($\beta=0.526$; $p<0.05$), operational risk affects financial performance ($\beta=0.122$; $p<0.05$), and market risk also impacts financial performance ($\beta=0.362$; $p<0.05$). The study suggested that management should develop parameters to monitor and mitigate the adverse effects of unpredictability in the foreign exchange market.

Keywords: *Credit Risk Management, Financial Performance, Market Risk Management, Operational Risk Management.*

Introduction

In the present era, institutions are navigating an environment fraught with diverse risks. Zhilkina et al. (2022) noted that the 21st century has witnessed numerous events that have led to financial risks affecting organizations, nations, regions, and the global economy as a whole. Ali and Hana (2021) emphasized that the importance of addressing financial risks grew significantly following the Asian economic crisis of the late 1990s and the U.S. financial crisis in the early 2000s. During 2001–2002, Argentina experienced a financial turmoil that led to its government being shut out of global capital markets. Mukaddam and Athenia (2020) further noted that the downfall of major corporations such as WorldCom and Enron deeply affected the corporate landscape, driving many organizations to implement financial risk management frameworks to safeguard both their operations and stakeholders.

The World Bank (2019) reported a decline in global GDP from 1.85% in 2008 to -1.67% in 2009, a result of the aforementioned financial crises. Teodoru and Klakow (2022) observed that banking instability and its associated fiscal and economic effects have been persistent challenges in several Asian nations since the oil price shock of 2014/15. Recently, Africa has encountered considerable financial risks due to the COVID-19 pandemic. According to the International Monetary Fund (IMF) in 2021, African nations saw a decrease in tax revenues as domestic industries faced significant losses, with African airlines alone losing USD 4.4 billion every quarter.

In January 2021, the Central Bank of Kenya (CBK) canceled the operating license of Legacy Forex Bureau after it had been inactive for over six months. Additional consequences of financial risks include reduced foreign exchange transaction volumes and lower profit margins. Proper financial risk management is regarded as the most effective strategy to prevent such situations (CBK, 2021).

Environmental risks refer to threats stemming from unpredictable environmental changes or potential liabilities (Zhilkina et al., 2022). Operational risks stem from uncertainties surrounding a company’s day-to-day activities, such as its supply chain and distribution processes, while management risks arise from decisions made by the leadership (Jaber, 2020).

Risk management encompasses the processes of identifying, assessing, and mitigating threats to an organization. As noted by Jaber (2020), it includes adopting strategies to shield businesses from potential dangers. Financial risk management focuses on approaches to address events that may disrupt an organization's financial health and its business goals (Ramazan & Gulden, 2019). Teodoru and Klakow (2022) highlight that the risk management framework involves establishing context, identifying, analyzing, addressing, assessing, evaluating, and articulating risks to support better decision-making.

To address financial risks, Mutunga & Ondara (2021) suggest using technological innovations to reduce costs, regulating perils and adverse determinations, conducting thorough investigations of financial risk cases, improving financial risk estimation models, and continuously monitoring vulnerabilities. The financial performance of Forex bureaus has been notably impacted by the risks associated with foreign exchange transactions, underscoring the importance of adopting effective financial risk management strategies to address uncertainties and mitigate potential threats (Cheruiyot, Cheruiyot, and Yegon, 2018).

Financial Risk Management and Financial Performance of Forex Bureaus

This paper provides an in-depth analysis of financial risk management practices and their influence on the performance of Forex bureaus, with a particular focus on Kenya and the broader East African region. According to the Bank for International Settlements (2018), Forex bureaus face elevated financial risks that adversely affect their income while raising operational expenses. These risks arise from exchange rate fluctuations, which can result in unexpected gains or losses (Bergen, 2020). By 2021, foreign exchange transactions constituted 12% of the financial turnover of these bureaus (Zhilkina et al., 2022).

In North Africa, effective internal operational risk management strategies have been demonstrated to reduce extraordinary losses for Forex bureaus (Isoh, Ambang & Nchang, 2020). In Uganda, enhanced credit risk management has led to lower default rates and improved financial performance for local Forex institutions (Kalu et al., 2018). The Central Bank of Kenya (CBK) highlights that financial risks are the most significant challenges faced by Forex bureaus, which have implemented various risk management techniques to address credit, liquidity, market, and operational risks.

Despite the regulatory framework brought by the Central Bank of Kenya in 1995 to promote competition and stabilize exchange rates, Forex bureaus still face challenges like tax evasion and fraud due to non-compliance with regulations (Gulleid, 2020). The expansion of Forex bureaus is linked to increased foreign direct investment and trade liberalization efforts. Nevertheless, profitability has decreased in recent years, suggesting underlying difficulties within the sector. This study seeks to investigate how financial risk management impacts the financial performance of Forex bureaus in Nairobi amidst these complexities.

The Pharmacy and Poisons Board regulates the pharmaceutical industry in Kenya, aiming to ensure product quality, safety, and efficacy (Pharmacy and Poisons Board, 2018). Kenyan pharmaceutical companies strive to provide quality services to achieve national development goals and Universal Health Care, facing challenges in regulatory compliance, funding, supply chain management, and talent acquisition (KPSDS, 2020). Addressing these issues requires collaboration between government, industry stakeholders, and regulatory bodies, with strategic leadership playing a crucial role in navigating these complexities and driving organizational performance.

Statement of the Problem

Pharmaceutical companies in Kenya face numerous organizational performance challenges, including regulatory constraints, inadequate infrastructure, counterfeit drugs, workforce skill gaps, and economic uncertainties (KPSDS, 2020). These issues are compounded by healthcare reforms, technological changes, and shifting consumer expectations, which impact stakeholder relationships and operations (Ledley *et al.,* 2020). The industry struggles with strategic direction and implementation, reducing revenues and capacity utilization (Kenya Pharmaceutical Association, 2020). Stiff competition, employee incompetency, and changing market demands further exacerbate these problems, highlighting the need for effective strategic leadership practices to navigate this complex landscape (Olow *et al.*, 2020).

Previous research has emphasized the importance of strategic direction and leadership in addressing performance issues across various sectors. Olaka and Kiriri (2017) linked high failure rates in strategy implementation in the banking industry to leadership factors. In the NGO sector, Oluoch *et al.* (2021) recommended emphasizing strategic direction and balanced organizational controls to improve sustainability. Similarly, Wakhisi (2021) highlighted the crucial role of strategic leadership in organizational success across industries. Given these findings, there is a need to investigate the influence of strategic leadership ethical practices on the organizational performance of pharmaceutical companies in Kenya, particularly for organizations with over a decade of operation.

Research Question

To what extent does strategic leadership ethical practices influence the organizational performance of pharmaceutical companies in Kenya?

Research hypothesis

H_0: Strategic leadership ethical practices do not significantly influence the organizational performance of pharmaceutical companies in Kenya.

Literature Review

Theoretical Review

This study was guided by the strategic leadership theory (Hitt *et al.,* 2016), which emphasizes the role of leaders in guiding organizations toward long-term success. Ethical practices are integral to effective strategic leadership, encompassing ethical leadership, well-developed codes of conduct, and systems for rewarding ethical behavior. These practices foster sustainable success, build stakeholder trust, and enhance organizational performance (Amayreh, 2020; Angulo, 2020). Ethical practices form the foundation for creating social capital and goodwill within organizations (Ayios *et al.,* 2014). Conversely, unethical practices can become normalized, leading to a culture of greed and hubris (Dzomonda & Fatoki, 2017). To prevent this, strategic leaders should integrate ethical values into company codes of conduct, ensuring clear expectations for all employees (Gangloff *et al.,* 2016). Implementing reward systems that encourage ethical behavior and foster a culture of courage and dignity is also crucial (Schwartz, 2016). By prioritizing ethical practices, strategic leaders can create a positive organizational culture that supports long-term success and performance.

Empirical Literature Review

The effectiveness of procedures used to implement-organizational strategies increases when they are grounded in ethical practices. Ethical enterprises inspire and enable people at all organizational levels to always act ethically (Angulo, 2020). The effect of emphasizing ethical practices on organizational performance is discussed using a code of conduct, ethical leadership, and rewarding ethical behavior.

Code of Conduct

Beeri *et al.* (2017) conducted a longitudinal study to evaluate how a workplace ethics program impacted employees' perceptions. The perceptions under study included: awareness of the ethical code, ethical climate, and ethical leadership, such as employee inclusivity in ethical decision-making (EDM), organizational citizenship behavior, employee commitment and quality of work life (QWL). The study conducted a two-wave survey targeting one Israeli regional council (Sözbilir, 2018). The first wave was conducted prior to the inception of the ethics program. The second was carried out after one year when managers assessed workers' behavior. Data analysis revealed that the ethics program had been quite effective, resulting in widespread awareness of the ethical code, higher inclusivity of staff in EDM, and a robust ethical climate (Sihag & Rijsdijk, 2019). Secondly, ethical leadership is positively related-to employee awareness of the ethical code, higher inclusivity of EDM staff, ethical climate enhancement, more significant employee commitment, and better QWL (Riley *et al.,* 2017).

Ethical Leadership

Aryati *et al.* (2018) assessed the mediating influence of ethical climate in the relationship between ethical leadership and employee misconduct. The sample was sourced from 300 sections of various firms in the southeastern United States. 1,525 workers and their superiors

participated in the survey (Ryan, 2018). The study hypothesized that there would be a positive relationship between ethical leadership and ethical climate, a negative relationship between ethical climate and employee misconduct, and mediation of the relationship between ethical leadership and employee misconduct by ethical climate (Saragih, 2018). The correlation

between ethical leadership and ethical climate was positive and significant, thus supporting the first hypothesis (Siedlecki, 2020). The analysis also supported the second hypothesis, β = -.35, p= 0.001, and the hypothesis that ethical climate would mediate the relationship between ethical leadership and employee misconduct (Skarbek, 2020).

Ethical Leadership

Deshpande *et al*. (2018) examined the perceptions of ethical climate and ethical practices of 118 successful Chinese managers among business students and managers in the Zhejiang province of China and the impact of different ethical climate types (professionalism, caring, rules, instrumental, efficiency, and independence) on perceived ethical practices of successful managers (Capano & Lippi, 2017). The rules were the most reported, and independence was the least reported among the various climate types; many respondents perceived successful managers as ethical, with the rule's climate organization recognizing a strong positive link between success and ethical behaviour (Deshpande & Girme, 2019). None of the other climate types impacted the link between success and ethical behavior.

Conceptual Framework

According to Hennink et al. (2020), conceptual frameworks are maps inferred or derived from specific illustrations or circumstances that aid in demonstrating the relationships between an interplay of variables graphically and diagrammatically. An illustrative representation of the variables explored by this study is shown in Figure 1.

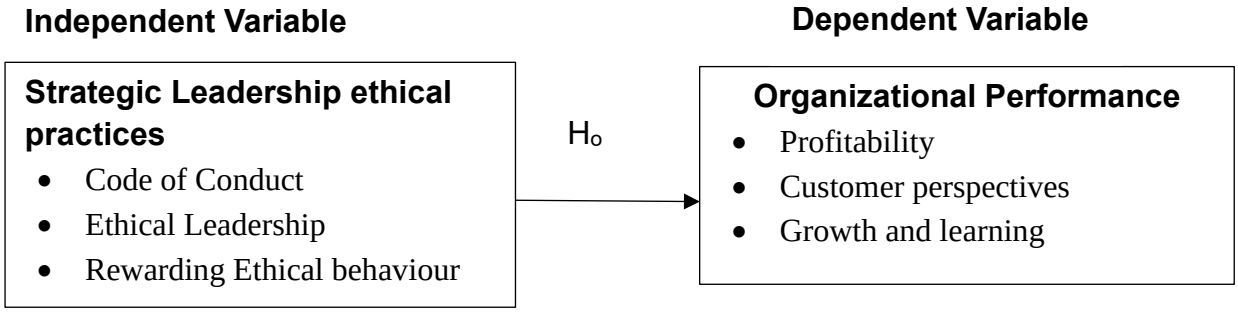

Figure 1: Conceptual Framework

Strategic Leadership ethical practices in organizations encompass a code of conduct, ethical leadership, and rewarding ethical behaviors (Amayreh, 2020). These elements work together to establish a framework for expected behaviors, promote a culture of integrity, and reinforce ethical conduct. Ethical leaders set the tone by demonstrating honesty and transparency, fostering trust and empowering employees to act ethically (Berrone *et al.*, 2017). Rewarding ethical behavior further reinforces these standards, cultivating a positive work environment and enhancing the organization's reputation (Angulo, 2020). These ethical practices influence organizational performance, measured through profitability, customer perspectives, and growth, potentially leading to improved financial outcomes and stakeholder satisfaction (Aryati *et al*., 2018).

Research Methodology

A positivism research philosophy and descriptive correlational research design guided the study, anchored on the strategic leadership theory. A stratified random sampling technique was

used to select a sample size of 390 from the target population of 1,746 senior managers. Primary data was collected using a self-administered questionnaire and analysed using descriptive and inferential statistics. The inferential statistics used included Pearson's coefficient for correlation analysis, Chi-square test, one-way ANOVA, and ordinal logistic regression for hypothesis testing.

Results and Findings

The results and findings present descriptive and inferential statistics. The inferential statistics used included Pearson's coefficient for correlation analysis, Chi-square test, one-way ANOVA, and ordinal logistic regression for hypothesis testing.

Means and Standard Deviation for Strategic Leadership Ethical Practices and Performance

The study examined how ethical practices influence organizational performance using three constructs: code of conduct, role models, and ethical behavior. Respondents rated their agreement on a 5-point Likert scale. Results showed that ethical practices positively influenced overall organizational performance (M=3.70-3.85, SD=0.70-0.95), profitability (M=3.66-3.85, SD=0.82-0.88), customer perspective (M=3.71-3.85, SD=0.80-0.89), and learning and growth (M=3.68-3.87, SD=0.93). These findings suggest that code of conduct, role modelling, and rewarding ethical behavior all contribute to various aspects of organizational performance in pharmaceutical companies.

Table 1

Mean and Standard Deviation of Strategic Leadership Ethical Practices

Strategic Leadership Ethical Practices	**N**	**M**	**SD**
My leader emphasizes on the organizational code of conduct	**320**	**3.70**	**0.70**
My leader role model's ethical practices	320	3.85	0.95
My leader rewards ethical behavior amongst senior managers	320	3.81	0.70
Influence of Ethical Practices on Profitability	**N**	**M**	**SD**
The profitability of my organization is influenced by my leader emphasizing on the organizational code of conduct	320	3.85	0.86
The profitability of my organization is influenced by my leader emphasizing on role modelling ethical practices	320	3.66	0.88
The profitability of my organization is influenced by my leader emphasizing on rewarding ethical behavior amongst senior managers	320	3.81	0.82
Influence of Ethical Practices on Organization's Customers' Perspective	**N**	**M**	**SD**
The customer perspective of my organization is influenced by my leader emphasizing on the organizational code of conduct	320	3.71	0.89
The customer perspective of my organization is influenced by my leader emphasizing on role modelling ethical practices	320	3.85	0.80

The customer perspective of my organization is influenced by my leader emphasizing on rewarding ethical behavior amongst senior managers	320	3.89	0.85

Influence of Ethical Practices on Organizational Learning and Growth Perspectives

	N	M	SD
The learning and growth perspective of my organization is influenced by my leader emphasizing on the organizational code of conduct	320	3.71	0.93
The learning and growth perspective of my organization is influenced by my leader emphasizing on role modelling ethical practices	320	3.68	0.93
The learning and growth perspective of my organization is influenced by my leader emphasizing on rewarding ethical behavior amongst senior managers	320	3.87	0.93

Correlation Analysis Between Strategic Leadership Ethical Practices and Organizational Performance

Pearson's correlation analysis test was conducted to determine the relationship between strategic leadership ethical practices and organizational performance. Correlation results in Table 2 indicate a statistically significant relationship between ethical practices and organizational performance r (320) =.167, p<.05.

Table 2

Correlation Analysis Between Strategic Leadership Ethical Practices and Performance

		Ethical Practices	Performance
Ethical Practices	Pearson Correlation	1	
	Sig. (2-tailed)	.001	
	N	320	
Organizational Performance	Pearson Correlation	.167*	1
	Sig. (2-tailed)	.022	.001
	N	320	320

*. Correlation is significant at the 0.05 level (2-tailed).

Chi-Square Test between Strategic Leadership Ethical Practices and Performance

A chi-square test (χ^2) was conducted to determine whether there was an association between strategic leadership ethical practices and organizational performance. The results in Table 3 indicate a statistically significant association between ethical practices and organizational performance χ^2 (271, N = 320) = 401.710, p<.05.

Table 3

Chi-square Test on Strategic Leadership Ethical Practices and Performance

Chi-square Test	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	401.710[a]	271	.000[b]
Likelihood Ratio	345.474	271	.738
Linear-by-Linear Association	42.332	1	.000
N of Valid Cases	320		

a. 390 cells (100.0%) have an expected count of less than 5. The minimum expected count is 01.
b. *Chi-square is significant at p <. 05 level

One-Way ANOVA Test between Strategic Leadership Ethical Practices and Demographics

One-way ANOVA was carried out to determine whether there were any significant differences between the means of ethical practices and demographic variables of gender, age bracket, position in the organization, work experience in the pharmaceutical company, and the highest level of education. The results displayed in Table 4 indicate that significant differences between the means of ethical practices and demographic variables occurred for Work experience, F (4, 316) = 1.092, $p \leq .05$ and Highest academic levels in the pharmaceutical company, F (4, 316) = 0.789, $p \leq .05$

Table 4

One-way ANOVA between Strategic Leadership Ethical Practices and Demographic Variables

		Sum of Squares	df	Mean Square	F	Sig.
Gender	Between Groups	7.324	4	1.831	1.713	0.501
	Within Groups	112.824	316	0.357		
	Total	120.148	320			
Age Bracket	Between Groups	73.201	4	18.300	2.389	0.431
	Within Groups	186.846	316	0.591		
	Total	260.047	320			
Work Experience	Between Groups	234.46	4	58.615	1.902	0.001
	Within Groups	1022.364	316	3.235		
	Total	1256.824	320			
Highest Academics	Between Groups	228	4	57.000	0.789	0.021

Within Groups	1167.224	316	3.694
Total	1395.224	320	

Ordinal Logistic Regression Analysis for Strategic Leadership Ethical Practices and Performance

Ordinal logistic regression is a predictive modelling technique that explores interactions between independent variables in predicting an ordinal dependent variable. The study applied the ordinal logistic regression model to determine whether ethical practices predicted organizational performance in pharmaceutical companies in Kenya. Before conducting ordinal logistic regression analysis, four assumptions were tested to establish the fitness of the model.

Ordinal Logistic Regression Assumptions

The following regression assumption tests were conducted to determine whether the dependent variable was ordinal; one or more independent variables were either continuous, categorical, or ordinal; there was no multicollinearity or proportional odds assumption violation.

The Dependent and Independent Variables Assumptions

The study satisfied the key assumptions for ordinal regression. The dependent variable, organizational performance, was measured using a 5-point Likert scale, meeting the ordinality requirement. Similarly, the independent variable, ethical practices, was assessed through three indicators (code of conduct, role modelling, and rewarding ethical behavior) using the same 5-point Likert scale. This approach ensured that both the ordinality and independent variable assumptions were adequately met, allowing for a valid application of ordinal regression analysis in the study.

Multicollinearity Assumption

The study addressed the multicollinearity assumption for ordinal regression. Using Pearson's correlation coefficient, the analysis confirmed that the independent variables were not highly correlated ($r < 0.8$). A confirmatory test using the variance inflation factor (VIF) yielded a value of 2.87, further indicating a lack of multicollinearity. These results demonstrated that ethical practices and organizational performance measures were independent and not multi-correlated, thus satisfying the multicollinearity assumption for the ordinal logistic regression analysis.

Table 5

Multicollinearity Test of Strategic Leadership Ethical Practices and Performance

Model		95.0% Confidence Interval for B		Collinearity Statistics	
		Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.279	2.760		
	Ethical Practices	1.572	2.760	1.402	2.870

a. Dependent Variable: Organizational Performance

Proportional Odds Assumption

The study validated the proportional odds assumption for ordinal regression using the test of parallel lines. The log-likelihood ratio Chi-Square test required a significant value of $p \geq .05$ to justify the assumption. Results showed no difference in ethical practices constructs between the null and general models (χ^2 (4) = 32.640, $p>.05$). With a statistical significance of .073 ($p>.05$), the analysis confirmed that the proportional odds assumption was not violated, ensuring the validity of the ordinal regression results.

Table 6

Test of Parallel Lines for Strategic Leadership Ethical Practices on Performance

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	31.219			
General	18.112*	32.640[a]	4	.062

*The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit

Ordinal Logistic Regression and Hypothesis Testing for Strategic Leadership Ethical Practices

The current study sought to establish the extent to which strategic leadership ethical practices influence the organizational performance of pharmaceutical companies in Kenya. Ordinal logistic regression tests were conducted to test the hypothesis, including Model fitting information test, Pseudo R-squared, Goodness-of-fit, and parameter estimates test. The hypothesis and the test are given below:

H_{01}: There is no relationship between ethical practices and organizational performance.

Test: Logit[P(Y≤*j*)] = $\alpha j - \beta_5 X_5 + \mu$

Goodness-of-Fit test criteria: Reject if p≥0.05, Fail to reject if p≤0.05.

Model Fitting Information for Strategic Leadership Ethical Practices and Performance

Model fitting information test used the Chi-square statistic to test if there was a significant improvement in the fit of the final model compared to the intercept-only model and whether the model gave adequate predictions. As indicated in Table 7, the Final Model Chi-square test result was statistically significant, χ^2 (4, N=316) =27.250, p=.002, p<.05, indicating that the model was suitable for predicting ethical practices on organizational performance.

Table 7

Test of Parallel Lines for Strategic Leadership Ethical Practices on Performance

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	49.217			
Final	33.172[b]	27.250[c]	4	.002

[a] Link function: Logit

Goodness of Fit for Strategic Leadership Ethical Practices on Performance

Goodness-of-fit tests if a model exhibits a good fit for the data; the statistics represented by Pearson and Deviance Chi-square determine if the observed data was inconsistent with the fitted model. Non-significant test results (p ≥ .05) would be pointers that the model fitted the data well, and Pearson Chi-square had been utilized for the study. Results presented in Table 8 indicate the Pearson Chi-square test in which χ^2 (4, N = 316) = 27.612, p=.062, p>.05. With a non-significant p-value. This implied a significant relationship between strategic leadership ethical practices and performance.

Table 8
Goodness-of-Fit for Strategic Leadership Ethical Practices on Performance

Model	Chi-Square	Df	Sig.
Pearson	27.612	4	.062
Deviance	4.324	4	.782

*Link function: Logit

Pseudo R-Square between Strategic Leadership Ethical Practices and Organization Performance

Pseudo R-square provided the coefficient of determination based on the log-likelihood for the regression model, and this was then compared to the log-likelihood of the baseline model. The findings from Table 9 reveal that the Nagelkerke R-Square, with a value of R2 = .054, indicates the Pseudo R-square results for ethical practices. This suggests that strategic leadership ethical practices account for approximately 5.4% of the variation observed in organizational performance.

Table 9
Pseudo R-Square between Strategic Leadership Ethical Practices on Performance

Link Function	Logit
Cox and Snell	.049
Nagelkerke	.054
McFadden	.051

*Link function: Logit

The Parameter Estimates of Strategic Leadership Ethical Practices on Organizational Performance

The ordinal logistic regression analysis provided parameter estimates to describe the relationship between ethical practices and organizational performance. The model's goodness of fit was assessed using various statistics. A Log Likelihood of 3.782 indicated that the model effectively predicted the influence of ethical practices on organizational performance. The Bayesian Information Criterion (BIC) suggested that ethical practices accounted for a 5.4% positive change in organizational performance among Kenyan pharmaceutical companies. The chi-square score for ethical practices (5.123) exceeded the critical value of 3.841 at four degrees of freedom, further confirming the statistical significance of the relationship between ethical practices and organizational performance.

Table 10
Parameter Estimates for Strategic Leadership Ethical Practices and Organizational Performance

(a) Goodness of Fit[a]	
	Value
Log Likelihood[b]	3.782
Akaike's Information Criterion (AIC)	11.455
Finite Sample Corrected AIC (AICC)	11.507
Bayesian Information Criterion (BIC)	5.381
Consistent AIC (CAIC)	20.348
(b) Hypothesis Testing (Wald Chi-square)	

	Wald Chi-Square	df	Sig.	B	Std. Error	95 Percent Wald Confidence Interval		
						Lower	Upper	Wald Chi-Square
(Intercept)	25.613	4	.000	3.194	.7982	3.212	7.621	25.613
Ethical Practices	5.123	4	.005	.247	.6671	.834	1.322	5.123

The ordinal logistic regression model before moderation took the form of the following:

$\text{logit}[P(Y \leq j)] = \alpha j + \beta_1 X_1$

where $P(Y=Neutral)/ P(Y=agree, strongly\ agree) = \exp(3.194 + .247\ X_1)$

where $P(Y=Neutral, agree)/ P(Y=strongly\ agree) = \exp(5.123 + .247\ X_1)$

αj= constant

β_1= coefficient

X_1= Ethical Practices

Discussion of Results

The study found a positive and significant relationship between ethical practices and organizational performance (r (320) =.241, p≤.05), aligning with the findings by Beeri *et al.* (2017). These studies highlighted those ethical practices led to increased employee awareness, inclusivity, and commitment, ultimately enhancing organizational performance. However, contrasting results were reported by Civelek *et al.* (2018) and Khan *et al.* (2019), who found negative influences of ethical codes and role models on firm commitment and performance.

Chi-square tests revealed a statistically significant association between ethical practices and organizational performance ($\chi^2(271, N=320)=401.710$, p<.05), consistent with findings from Oladimeji et al. (2019) in Nigeria and Chen et al. (2018) in China. However, Kliuchnikov (2018) reported an insignificant association with Hungarian pharmaceutical firms. One-way ANOVA results showed significant differences in ethical practices based on work experience and academic levels, supporting findings by Inklaar and Papakonstantinou (2020).

Ordinal logistic regression results indicated that ethical practices explained 5.4% of the variance in organizational performance (R^2=.054), similar to findings by Cheng *et al.* (2017) in Taiwan (R^2=.128). These studies concluded that internal ethics foster a just climate and employee commitment, improving organizational performance. Conversely, Munyao et al. (2019) found a non-significant relationship (R^2=.002), suggesting that ethical practices could potentially harm organizational performance if not carefully implemented.

Conclusion

The study sought to determine the extent to which strategic leadership ethical practices influence the organizational performance of pharmaceutical companies in Kenya. The results of the ordinal logistic regression analysis (Nagerlkerke Pseudo R-Square) indicated that ethical practices explained 5.4% of the variance in organizational performance (R^2 = .054). The ordinal regression parameter estimates significantly predicted organizational performance, β_5=.247, p ≤ .05. Hence, the study concluded that Strategic Leadership ethical practice significantly influences the organizational performance of pharmaceutical companies in Kenya.

Recommendations

To improve organizational performance, Kenyan pharmaceutical companies should prioritize ethical practices by developing leadership skills, updating codes of conduct, implementing ethical behaviour incentives, and enforcing zero tolerance for unethical actions. These measures will foster integrity, enhance decision-making, and boost competitiveness in the sector.

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