

## Significance of Adaptive Challenge Dimension of Adaptive Leadership on Organizational Performance of Commercial Banks in Kenya

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### Abstract

*This study assessed the significance of adaptive challenge dimension of adaptive leadership on the performance of commercial banks in Kenya. The study was grounded on the Adaptive Leadership Theory and adopted the post-positivist research philosophy. A mixed-method approach was used to conduct the investigation, adopting the census method. Adaptive challenge was measured through three sub variables: problem diagnosis, creative thinking, and providing direction. The study targeted 394 top-level managers. Primary data was collected through self-administered online questionnaires. Qualitative data from open-ended questions was analyzed thematically, while quantitative data was examined using descriptive and inferential statistics in SPSS (version 29). Inferential analysis employed Pearson correlation, multiple linear regression, and stepwise regression. The correlation results revealed,  $r(314) = 0.801$ ,  $p < 0.003$ . The results showed that adaptive challenge explained 26.9% ( $R^2 = 0.269$ ) of the variation in performance of commercial banks in Kenya. The regression coefficient for adaptive challenge returned coefficient values of  $\beta = 0.376$ ,  $t(314) = 3.958$ ,  $p < 0.001$  which was less than ( $p < 0.05$ ) set for the study. Thus, the null hypothesis was rejected implying that adaptive challenge has a positive significance on the performance of commercial banks in Kenya. The study recommends that commercial banks in Kenya equip managers to navigate uncertainties while sustaining performance and promote creative thinking to foster innovation and effective solutions. This study was limited to the significance of adaptive challenge on the performance of commercial banks in Kenya. The study, therefore, suggests that similar studies could be carried out in other financial institutions to allow generalization of findings.*

**Keywords:** Adaptive challenge, Adaptive leadership, Organizational performance, Commercial Banks, Kenya.

### Introduction

Adaptive leadership involves recognizing and mobilizing the collective intelligence and resources of a group or organization to address adaptive challenges. These are complex problems that require innovative thinking, learning, and behavioral changes (Coleman, 2021). While technical challenges are straight forward and have ready solutions, adaptive challenges are new and do not have a known solution (Kuluski et al., 2021).

Adaptive leaders anticipate, identify root causes and address challenges (Western Governor University, 2021). In addition, they are able to determine what kind of risks the organization should take and what to do in order to avoid wastage of organizational time. Adaptive leaders

are sufficiently skilled to deal with adaptive challenges and agile enough to shift direction when necessary to drive organizational transformation (Castillo & Trinh, 2019).

Dunn (2020) suggested that leaders need to develop adaptive methodologies to manage complexity, unpredictability, and change, thereby enabling them to respond swiftly to emerging opportunities and challenges. Adaptive Leadership is the most ideal for it provides a framework for dealing with complex and competitive environments while focusing on existing organizational strengths instead of weaknesses (Goode et al., 2021; Coleman, 2021). Vijayashree (2022) indicated that adaptive leadership enables leaders to embrace situational awareness when diagnosing adaptive challenges, while helping them to develop appropriate policies that improves employee well-being while creating adaptive workspaces.

In Kenya several studies such as Wamburu et al. (2022) and Odindo et al. (2023) have demonstrated the positive impact of adaptive leadership and its critical contribution to the performance within the insurance sector. In both studies adaptive challenges are viewed as complex organizational problems, intricate in nature and require innovative approaches to successfully navigate VUCA environments.

### **Statement of the Problem**

The Central Bank of Kenya's Bank Supervision Annual Report (2023a) highlights a concerning decline in the financial performance of commercial banks. Specifically, profit before tax declined by 8.8%, from Kshs. 240.4 billion in December 2022 to Kshs. 219.2 billion in December 2023, primarily due to rising operating expenses. Furthermore, the wave of bank acquisitions in 2023 underscored the growing necessity for creating operational synergies through mergers and acquisitions, as well as the urgent need for leadership to adapt business models to ensure resilience in an increasingly volatile economic environment.

In response to such dynamic conditions, the Adaptive Leadership Theory presents a compelling framework for navigating uncertainty and managing organizational change (Heifetz et al., 2009). Adaptive leadership is considered by various scholars as appropriate leadership in uncertain situations (Northouse, 2019). Through adaptive leadership, commercial banks can develop a responsive decision-making process that allows them to quickly adapt to changing market conditions, regulatory requirements, and economic challenges (Kumar & Sharma, 2018). Nonetheless, many commercial banks in Kenya continue to rely on the traditional, hierarchical leadership models that prioritize control, stability, and rigid structures over adaptability and innovation (Makanga & Otieno, 2020).

Additionally, the underperformance of Kenyan commercial banks has been linked to systemic issues such as inadequate infrastructure, insufficient policy implementation, corruption and a demotivated workforce (Kamau, 2020). Compounding these challenges are deficiencies in leadership capacity, skill gaps, and limited organizational resources. Collectively, these factors constrain the ability of banks to function efficiently, innovate effectively, and achieve sustainable performance outcomes. However, there have been endeavors to enhance operations such as the adoption of digital banking systems and implementing structural changes in top leadership positions (Muhindi & Ngaba, 2018; Alushula, 2024).

Despite ongoing efforts, the performance of many commercial banks in Kenya remains below global standards (Nyakomitta, 2021; Kasuni et al., 2022; Ahmed et al., 2022). While studies such as Wamburu et al. (2022a) and Odindo et al. (2023) have demonstrated the positive impact of adaptive leadership on performance within the insurance sector, there is a notable lack of empirical research examining this relationship in the Kenyan banking sector (Chughtai et al., 2024; Abukalusa & Oosthuizen, 2025). This gap underscores the need for further investigation

across different financial services and management levels, thereby justifying the current study. Moreover, although the Central Bank of Kenya has made significant strides through initiatives such as the Banking Sector Innovation Framework (CBK, 2023b), there remains a lack of clear policy guideline on the institutionalization of adaptive leadership strategies within the commercial banking sector. While policy pronouncements encourage innovation and digital transformation, there is limited attention to the leadership capabilities required to drive and sustain such transformation. This gap highlights the absence of a structured policy framework guiding the development, implementation, and integration of adaptive leadership practices in banking operations. The findings of this study have the potential to inform regulatory reforms and contribute to the formulation of best practice guidelines that promote leadership adaptability, resilience, and strategic agility. The objective of the study was to determine the significance of adaptive challenge dimension of adaptive leadership on the performance of commercial banks in Kenya.

### ***Theoretical Review***

The Adaptive Leadership Model is a leadership framework developed by Ronald Heifetz in 1994 (Heifetz, 1994). It is designed to address complex and dynamic challenges that organizations face in an ever-changing environment. Adaptive Leadership Theory (ALT) advocates for a more distributed form of leadership, where power and responsibility are shared (Sott & Bender, 2025). The adaptive leader fully involves the workers in the navigation of the complex and ambiguous environment (Nöthel et al., 2023). The adaptive leader encourages the employees to adopt a forward-looking approach that anticipates challenges and proactively prepare adaptive solutions to tackle them. This is because adaptive challenges have no known solution, are disruptive to the status, and mostly lead to a shift in priorities (Seibel et al., 2023).

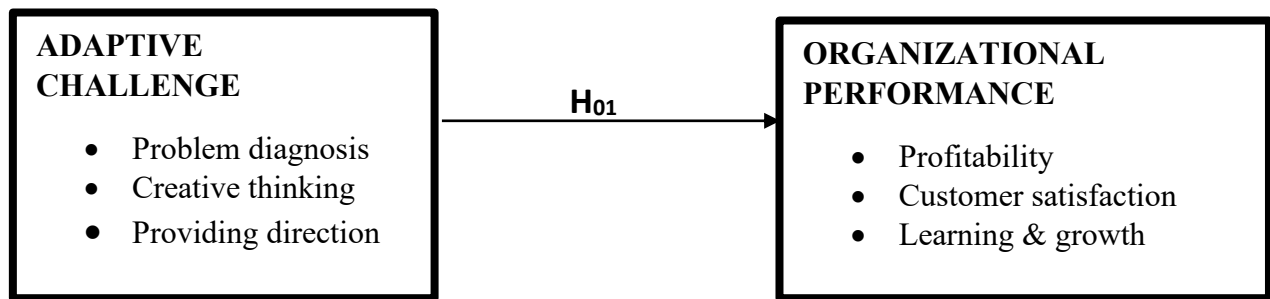
Northouse (2019) perceives ALT to comprise challenges dictated by situations, the behavior of the leader, and adaptive work that result in new ways of working in an organization. In addition, the theory proposes the following key tenets: distinction between technical and adaptive challenges; the adaptive leader gaining a broader perspective by stepping back to have a holistic view of the organization; emphasis on innovation and experimentation; employee empowerment; and regulating distress (Abukalusa & Oosthuizen, 2025).

Adaptive Leadership Theory conceptualizes “getting on the balcony” as a leader’s capacity to detach from day-to-day activities, observe unfolding events and patterns, and interpret them to formulate appropriate interventions. This gives the leader a bigger picture of the organization and a sense of clarity and reality (Northouse, 2019; McKimm et al., 2022). This practice enables leaders to reflect and develop the capacity to shift between their current roles and new perspectives, a skill that is essential given the complexity and dynamic nature of adaptive change (Heifetz & Laurie, 1997).

Among the criticism of ALT are the lack of clear conceptualization, insufficient empirical support and need for additional refinement especially as regards organizational performance (Glover et al., 2002; Northouse, 2019; Wamburu et al., 2022; Odindo, K’aoi & Njenga, 2023; Seibel et al., 2023).

### ***Conceptual Framework***

The ALT has three key components: situational challenges; leadership behaviors, and adaptive work. In this study, the adaptive challenge is measured through the three sub-variables of problem diagnosis, creative thinking, and providing direction as shown in Figure 1.



**Figure 1:**

*Conceptual Framework: Adaptive Challenge and Organizational Performance*

The conceptual framework relationship between variables led to the following hypothesis of the study.

H<sub>0</sub>: Adaptive Challenge has no significant effect on the performance of commercial banks in Kenya.

Adaptive challenges often involve multiple stakeholders, conflicting interests, and changing circumstances (Mehralian et al., 2017). These necessitate individuals, communities or organizations to collaborate and acquire new behaviors, knowledge, skills, and perspectives (Doyle, 2017). Adaptive challenges require a willingness to challenge existing assumptions, experiment with different approaches and be open to feedback during continuous learning while finding effective solutions (Lussier & Achua, 2022). Towards this goal, the stakeholders generate innovative ideas, share resources and work collectively (Sueptaetrakun & Tangthong, 2018).

Adaptive challenges often require systemic or organizational changes rather than simple adjustments. The changes involve addressing underlying structures, norms, and cultures that may hinder progress or perpetuate the problem (Odindo et al., 2023). Adaptive challenge entails: problem diagnosis, creative thinking, and providing direction.

Problem diagnosis involves analyzing the symptoms, gathering relevant information, and assessing the situation to gain insights into the root causes of the problem. Effective problem diagnosis lays the foundation for developing appropriate solutions and strategies (Garavaglia et al., 2021). According to Pak et al. (2020) problem diagnosis is an iterative process that may require revisiting and adjusting as new information emerges or the situation evolves. It is crucial to involve relevant stakeholders and maintain open lines of communication throughout the diagnosis process.

Creative thinking involves suspending judgement, breaking free from conventional or established patterns of thinking and embracing new perspectives, possibilities, and connections (Zhou & Hoever, 2014; Yeo, 2021a). It is essential for generating fresh insights, fostering innovation, and finding unique and effective solutions (Gilson, 2008).

Providing direction is about communicating goals, expectations, and priorities to ensure everyone is aligned and working towards a common objective (Santra & Alat, 2021). Providing direction requires the setting of clear goals, communicating expectations, and fostering an

environment of collaboration and learning. This way, a leader can guide individuals and teams towards achieving success (Kumar & Sharma, 2018).

### ***Empirical Literature***

Several studies have been conducted to empirically review how identification of adaptive challenges influences the performance of various organizations.

Odindo et al. (2023) sought to find out the influence of identifying adaptive challenges on the digital transformation of the insurance companies in Kenya. The ordinal logistic regression results indicated  $R^2=0.597$ ,  $\beta = -.4787$ ,  $p<0.05$  revealing that identifying adaptive challenge behavior could be used to explain 59.7.9% variation in digital transformation of Insurance firms in Kenya. This study reinforced the importance of identifying the adaptive challenge as it contributed significantly to digital transformation reinforcing the importance of adaptive leadership to organizational performance.

In a study by Garavaglia et al. (2021) in the Lombardy region of the metropolitan city of Milan, it was established that AL was important in aligning government frameworks in preparation for and anticipation of challenges during crisis. Adaptive leadership specifically enabled leaders to differentiate between technical and adaptive challenges, leading to timely decisions that led to better management of the pandemic crisis.

Abukalusa and Oosthuizen (2025) sought to develop a framework on adaptive organizational leadership through systematic thinking, which was motivated by the need to facilitate easy navigation in VUCA environments. The study emphasized that diagnosing and addressing adaptive challenges is the first step in effective leadership adaptation. In order to easily identify adaptive challenges, the organization needed to employ a systematic thinking approach, a shift in the mindsets of the leadership, and a holistic leadership approach that yielded an adaptive culture ideal for addressing complex situations.

Pak et al. (2020) conducted multiple case studies in four American districts (California, Massachusetts, Ohio, and Pennsylvania) to interrogate the adaptive challenges of curriculum implementation in helping align the teachers' practice. The research concluded that technical strategies did not address adaptive challenges and were an impediment to teachers adjusting their practice to the new standards, in the process falling short of their goal to meet the needs of the learners.

Yeo (2021b) studied 25 front-line managers in mid-sized multinational professional service firms. It was the findings of the study that AL was able to convert their vulnerabilities into strength because of the overwhelming support they gained from their employees. In addition, it was critical for the leaders to apply collective wisdom in tackling urgent issues and speeding up decision making. Finally, experimentation aided in challenging the status quo while embracing innovative practices by both the leaders and employees.

Saleem et al. (2021) in their study established the importance of creative thinking in the performance of an organization. The study revealed that for an organization to maintain a competitive advantage, it had to intentionally develop its employees' creative abilities by focusing on their unique abilities and bringing out their best attributes. These organizations had to create a conducive environment for creative thinking.

Thakur et al. (2024) explored the impact of human resource analytics on both human resource management and organizational performance. The study reported that creative problem-solving capability positively and significantly contributed to both HRM performance (0.38,  $p<0.001$ )

and organizational performance (0.34,  $p < 0.001$ ) signifying the importance of critical thinking in the performance of an organization.

Furthermore, a study by Alshammary and Ali (2024) sought to examine the relationship between knowledge management and employee performance among full time health care professionals in Saudi Arabia. Creative thinking was the mediating variable and was found to have full mediation effect. It contributed to discovering innovative solutions with higher performance outcomes.

AlMazrouei et al. (2023) carried out a study that examined the combined influence of learning goal orientation, participative decision making, and leadership exchange on expatriate innovative work behavior. The study also investigated team potency interaction with employee creativity. The results revealed that learning goal orientation, participative decision making, and leadership exchange had a significant direct effect on innovative work behavior, and employee creativity fully mediated the relationship. Teams that had developed collective confidence had more creative contributions that resulted in new innovations which ultimately led to better performance outcomes.

The above studies collectively confirm how correct diagnosis of adaptive challenges is an important leadership competency when it comes to navigation in VUCA environments.

## **Methodology**

The study employed post-positivism research philosophy. Post-positivism allows independence in research, encouraging minimal interaction with participants, hence maintaining objectivity and consistency (Wamburu et al., 2022). This study adapted a cross-sectional approach since data was gathered once over a period of several months. The study employed a mixed method approach ideal in cases where the research problem sought to identify factors that influence an outcome, test a theory and comprehend the best of outcomes (J. W. Creswell & Creswell, 2018).

This study focused on the 37 commercial banks across Kenya, as recorded in the Central Bank report (Central Bank of Kenya, 2023). The 394 respondents comprising the top management team in these commercial banks formed the unit of observation, while the 37 commercial banks in Kenya were the unit of analysis. By incorporating both closed-ended and open-ended questions, this study aimed to gather quantitative data for statistical analysis while also capturing qualitative perspectives from the respondents (Pilcher & Cortazzi, 2024). This mixed-method approach provides a more comprehensive understanding of the research topic, combining numerical data with rich qualitative insights (Tashakkori et al., 2020).

Primary data was collected through the use of a structured questionnaire administered electronically, aided by new survey development software packages and online survey services to enhance the efficiency of the online survey. The items in the questionnaires were ranked based on a five-point Likert scale specifying whether the respondent agreed with a specific statement (i.e. from 1-strongly disagree, 2-disagree, 3-neutral, 4-agree and 5-strongly agree). The top management team was preferred since they are better positioned to provide the needed information on adaptive leadership and organization performance.

The inter-item consistency reliability was tested through Cronbach's coefficient alpha, known for its popularity (Cronbach & Shavelson, 2004; Saunders et al., 2019). The survey's variables were found to be reliable as the Cronbach coefficient alpha values were greater than 0.7. as shown in Table 1.

**Table 1**

*Average Reliability Test Results*

Variable	Number of Statements	Cronbach Alpha	Interpretation
Adaptive Challenge	10	0.807	Reliable

Correlation analysis was applied to test both criterion-related validity and construct validity (Kothari, 2018). Factor analysis was adopted to enhance construct and convergent validity of the questionnaire. The Average Variance Extracted (AVE) was used to assess convergent validity. According to Shrestha (2021) the value of AVE that is more than or equal to 0.5 confirms convergent validity. Table 2 shows that the Average Factor Loading for adaptive challenge is 0.540, therefore confirming that all the constructs were suitable for further analysis.

**Table 2**

*Average Variance Extracted (AVE) Values*

Variable	Number of Statements	AVE Values	Comment
Adaptive Challenge	10	0.540	All items were accepted

Several diagnostic tests were carried out. Multicollinearity was used to determine whether predictor variables in the multivariate regression model are highly or significantly correlated with each other. Multicollinearity was assessed using tolerance values and the Variance Inflation Factor (VIF) to determine the degree of correlation among the variables. The VIF as depicted in Table 3, indicates adaptive challenge had a VIF of 3.115 which is less than 10, depicting absence of multicollinearity in the dataset.

**Table 3**

*Multicollinearity Test*

	Tolerance	VIF
Adaptive Challenge	.321	3.115

Linearity test was done through checking whether the relationship between adaptive challenge perspective and organizational performance is linear. Additionally, checking for outliers was important since linear regression is sensitive to the influence of outliers (Bougie & Sekaran, 2019). In the SPSS output display (Table 4), the sig. value of adaptive challenge = 0.538. It can therefore be concluded that there is significant linear relationship between adaptive challenge and organizational performance.

**Table 4**

*Coefficients of Linearity Test*

Model	Sig.	95.0% Confidence Interval for B		Tolerance
		Lower Bound	Upper Bound	
Adaptive Challenge	.538	-19.721	23.732	.189

Autocorrelation was tested using the Durbin-Watson test. Findings presented in Table 5 show that the d-value was 1.990; since the value lies within the range  $1.5 < d < 2.5$ , then it can be concluded that there is no autocorrelation in the data and therefore regression analysis can be computed.

**Table 5**

*Durbin-Watson Autocorrelation Test*

Model	Std. Error of the Estimate	Durbin-Watson
1	1.29748	1.990

This study used Breusch-Pagan/Cook-Weisberg test to examine whether heteroscedasticity is present in the data. The findings presented in Table 6 shows Chi2 = 1.3457 has p-value P (0.3241) greater than 0.05. This therefore suggests insignificance and therefore there is no heteroscedasticity.

**Table 6**

*Breusch-Pagan/Cook-Weisberg test for Heteroscedasticity*

Ho: Constant variance			
Statistics	Df	Stat value	p-value
Chi-squared	1	1.3457	0.3241

This study applied Shapiro-Wilk test to determine whether the data deviates significantly from a normal distribution. The result of the normality test is shown in Table 7. The results indicated that the p-value for Shapiro Wilk test were: adaptive challenge (p=0.981) and performance of commercial banks (p=0.991). All the variables satisfied the assumption of normality since p>0.05.

**Table 7**

*Shapiro Wilks Test of Normality*

	Shapiro-Wilk Statistic	Df	Sig
Adaptive Challenge	0.981	314	0.571
Performance of commercial banks	0.991	314	0.060

Questionnaires were used as the primary data collection tool to generate both quantitative and qualitative data. Thematic analysis was employed to analyze the qualitative data from open-ended questions (Castleberry & Nolen, 2018). The qualitative results derived from thematic analysis were presented in a narrative format. Quantitative data analysis (descriptive and inferential statistics) was done using SPSS version 29 software.

Nominal data was analyzed through descriptive statistics where frequencies and percentages were used to express the results. Moreover, the study applied the use of several tools. This included frequency distribution, percentages, mean, and standard deviation to provide a comprehensive understanding of the respondents' responses.

The inferential data analysis in this study involved the utilization of several statistical techniques, including the Pearson correlation coefficient, multiple linear regression analysis, ANOVA and stepwise regression analysis using the stepwise method (Bougie & Sekaran, 2019). Composite indices were created for each variable to ensure they are in continuous form, which was necessary for the application of Pearson correlation and linear regression analysis.

## **Results**

The study sample consisted of 394 respondents, including 40 participants who took part in the pilot study. From the 354 online questionnaires administered, 314 were filled and returned, hence a response rate of 88.7%. The response rate was considered suitable for making inferences from the data collected.

### ***Descriptive Statistics***

The mean and standard deviation results indicate that respondents agreed their organization encourages experimentation in addressing adaptive challenges ( $M = 4.089$ ,  $SD = 0.581$ ). Moreover, the respondents indicated that they regularly collaborate with colleagues and stakeholders to address adaptive challenges ( $M=4.086$ ,  $SD=0.550$ ). Further, the respondents affirmed that when employees struggle with value questions, they do not remind them to follow organizational policies ( $M=4.086$ ,  $SD=0.455$ ). The respondents also agreed that they bring controversial organizational issues into the open and encourage communication among employees ( $M=4.073$ ,  $SD=0.503$ ). The respondents acknowledged that their organization promotes a learning culture to tackle adaptive challenges ( $M=4.061$ ,  $SD=0.472$ ). In addition, the respondents reflected a shared view that their organization encourages innovative thinking ( $M=4.054$ ,  $SD=0.604$ ).

In addition, the respondents agreed that when events trigger conflict, they encourage employees to resolve the issues ( $M=4.051$ ,  $SD=0.442$ ). Also, the participants concurred that the adaptive challenges in their organization are often characterized by their complexity and lack of ready-made solutions ( $M=4.032$ ,  $SD=0.458$ ). Further, the respondents agreed that in their organization, they frequently encounter challenges that do not have straightforward solutions ( $M=4.001$ ,  $SD=0.456$ ). The respondents were also in agreement that they frequently find themselves facing situations where the traditional approaches and solutions do not seem to work ( $M=3.997$ ,  $SD=0.557$ ).

### ***Factor Analysis for Adaptive Challenge***

Factor analysis was used to establish the most appropriate items for each dimension as well as test whether all items are interrelated and if the subsets of some items are more closely related. This study considered loadings of 0.50 and above as the threshold for interpretations. The findings reveal that for adaptive challenge the AVE of the research instrument ranges between 0.507 and 0.554. This shows that all the items met the threshold of 0.5 and above and therefore, none had to be dropped through the factor analysis test.

### ***Inferential tests***

This section presents the results for inferential statistics on adaptive challenge and its significance on the performance of commercial banks in Kenya.

### ***Correlation between Adaptive Challenge and Organizational Performance***

The present study used Pearson correlation analysis to determine the strength of association between the independent variable (adaptive challenge) and the dependent variable (organizational performance of commercial banks in Kenya).

**Table 8**

*Correlation between Adaptive Challenge and Organizational Performance*

		Organizational Performance	Adaptive Challenge
Organizational Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	314	
Adaptive Challenge	Pearson Correlation	.801**	1
	Sig. (2-tailed)	.003	
	N	314	314

The results in Table 8 indicate a strong positive correlation between adaptive challenge and the organizational performance of commercial banks in Kenya ( $r = 0.801$ ,  $p$  value = 0.003). The relationship was significant since the  $p$ -value of 0.000 was below the 0.05 significance level.

***Analysis of Variance for Adaptive Challenge and Organizational Performance***

ANOVA was used to assess the fitness of the regression model. The results in Table 9 show that  $\text{Prob}>F(1,312) = 0.000$ , which is below the 0.05 significance level, indicating that the model was suitable for predicting organizational performance in commercial banks in Kenya. Additionally, the computed  $F$ -value (700.81) exceeded the  $F$ -critical value (3.871), further confirming that adaptive challenge significantly predicts organizational performance of commercial banks in Kenya.

**Table 9**

*ANOVA for Adaptive Challenge*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	51.159	1	51.159	700.81	.000 <sup>b</sup>
Residual	22.816	312	0.073		
Total	73.975	313			

a. Dependent Variable: organizational performance of commercial banks in Kenya

b. Predictors: (Constant), adaptive challenge

**Table 10**

*Beta Coefficients for Adaptive Challenge*

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	0.292	.067		4.358	.000
1 Adaptive Challenge	0.376	0.095	0.375	3.958	0.001

a. Dependent Variable: organizational performance of commercial banks in Kenya

From the results in Table 10, the following regression model was fitted.

$$Y = 0.292 + 0.376 X_2$$

( $X_2$  is Adaptive Challenge)

The coefficient results showed a constant of 0.292, meaning that if adaptive challenge were held at zero, the organizational performance of commercial banks in Kenya would be 0.292 units. The adaptive challenge coefficient was 0.376, indicating that a one-unit increase in adaptive challenge leads to a 0.376-unit improvement in organizational performance. It was also noted that the P-value for adaptive challenge coefficient was 0.000 which is less than the set 0.05 significance level indicating that adaptive challenge was significant. Based on these results, the study rejected the null hypothesis and accepted the alternative that adaptive challenge has positive significant influence on organizational performance of commercial banks in Kenya.

### ***Regression Analysis for Adaptive Challenge and Organizational Performance***

A univariate regression analysis was conducted to investigate the significance of adaptive challenge on the organizational performance of commercial banks in Kenya. The null hypothesis was stated as follows:

H<sub>0</sub>: Adaptive challenge has no significant effect on the performance of commercial banks in Kenya.

The R-Squared depicted the variation in organizational performance (dependent variable) that can be explained by adaptive challenge (independent variable). As indicated in Table 11, the R-squared for the relationship between adaptive challenge and organizational performance of commercial banks in Kenya was 0.269; this is an indication that at 95% confidence interval, adaptive challenge can be used to explain 26.9% of changes in organizational performance of commercial banks in Kenya.

**Table 11**

*Model Summary for Adaptive Challenge*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.519 <sup>a</sup>	.269	.267	.68365

a. Predictors: (Constant), Adaptive Challenge

### **Discussions of Findings**

The study sought to determine the significance of adaptive challenge on the performance of commercial banks in Kenya. The correlation results determined that adaptive challenge had a positive and significant correlation,  $r(314) = 0.801, p < 0.003$ . The outcome is aligned to two empirical studies done in India. Santra and Alat (2021), in their examination of leadership competencies required during uncertainty in Keraha State concluded that the adaptive challenges faced by doctors included information overload and personal complexities that needed adaptive solutions. The correlation results also support the study by Thakur et al. (2024), which explored the impact of human resource analytics on both human resource management and organizational performance. They reported a positive and significant relationship between creative problem-solving capability and both HRM performance (0.38,  $p < 0.001$ ) and organizational performance (0.34,  $p < 0.001$ ), signifying the important part that critical thinking plays in the performance of an organization.

The study findings ( $r = 0.860; R^2 = 0.245$ ) resonate with those of Santra and Alat (2022) which emphasize the behavioral and ethical dimensions of adaptive leadership during healthcare crises. Their qualitative findings reinforce our quantitative results by underscoring that adaptive behaviors enable leaders to respond effectively to dynamic challenges. These sectoral

comparisons collectively validate adaptive leadership as a cross-cutting driver of organizational success.

The model summary results of this study show that  $R^2=0.269$ , which implies that adaptive challenge can be used to explain 26.9% variation in performance of commercial banks in Kenya. These results align with a recent survey done by Odindo et al. (2023), which set to analyze the influence of identifying adaptive challenges on the digital transformation of insurance companies in Kenya. The ordinal logistic regression results indicated  $R^2=0.597$ , revealing that identifying adaptive challenge behavior can be used to explain 59.7% variation in digital transformation of insurance firms in Kenya. This study reinforces the importance of identifying the adaptive challenges.

Furthermore, the regression ANOVA showed a significant relationship between adaptive challenge and organizational performance,  $F(1,312) = 700.81$ ,  $p < 0.001$ , indicating that the model reliably predicts the performance of commercial banks in Kenya. Similar findings have been reported in previous studies. Saleem et al. (2021) found that maintaining competitive advantage requires organizations to intentionally develop employees' creative abilities, as creative thinking influences performance both directly and indirectly. These findings corroborate the results of this study, where respondents agreed that their organization encourages innovative thinking and allows experimentation to address adaptive challenges.

The regression coefficient for adaptive challenge in this study reveals coefficient values of  $\beta = 0.376$ ,  $t(314) = 3.958$ ,  $p < 0.001$ , which was less than ( $p < 0.05$ ) set for the study. Thus, the null hypothesis was rejected, suggesting that adaptive challenge significantly contributed to the performance of commercial banks in Kenya. These findings are comparable to those of a study conducted in the metropolitan city of Milan, Italy, which revealed that diagnosing adaptive challenges requires leaders to focus not only on the symptoms of a problem but also on the underlying adaptive systems (Garavaglia et al., 2021).

While the present study confirms a strong positive relationship between adaptive leadership and organizational performance in Kenya's commercial banks ( $r = 0.860$ ,  $R^2 = 0.245$ ), studies in other sectors also underscore the value of adaptive leadership albeit from different angles. Pak et al. (2020), conducted multiple case studies in four districts (California, Massachusetts, Ohio and Pennsylvania) to interrogate the adaptive challenges of curriculum implementation in helping align the teachers' practice. The research concluded that environments that encourage creative thinking and allow for risk-taking are more likely to find innovative solutions to adaptive challenges. Despite methodological and contextual differences, both studies reinforce that adaptive leadership is crucial in navigating complex, evolving environments.

## **Conclusions**

The study established that adaptive challenge positively and significantly influenced the performance of commercial banks in Kenya. The study recommends that managers in commercial banks should involve their teams in problem diagnosis and finding unique and effective solutions. Furthermore, they should create a conducive environment for effective communication and teamwork leading to success. The study also recommends that the management of commercial banks in Kenya should enhance leadership development programs focused on resilience and change management to effectively guide their teams through the adaptive challenges.

## **Recommendations**

This study was limited to examining the significance of adaptive challenges on the performance of commercial banks in Kenya. Therefore, similar studies could be conducted in other financial service sectors to enhance the generalizability of the findings. Additionally, the study employed a mixed-method approach and focused on top-level management. It is recommended that future research incorporate the perspectives of middle- and lower-level management to provide a more comprehensive understanding of the phenomenon. Further, the study found that the independent variable (adaptive challenge) could only explain 26.9% of organizational performance of commercial banks in Kenya. This study suggests further research on other factors affecting organizational performance of commercial banks in Kenya.

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