International Journal of Intellectual Human Resource Management (IJIHRM)

2023; 4(1): 34-39
https://journals.gulfuniversity.org/index.php/ijhrm
DOI: 10.46988/IJIHRM.04.01.2023.005
ISSN: 2535-9800 (Print); ISSN: 2536-0043 (Online)

# Effects of Strategic Management on Organizational Performance in Banking Industry

Shaas S A Zidan [1*]

[1*] Department of Business Administration, Istanbul Aydin University.

**Article Info**

Article history:
Received 05 January 2023
Received in revised form 05 February 2023
Accepted 20 March 2023
Published 01 April 2023

## Abstract

In banking industry, there are many challenges from the internal and external environment that make this organisation in critical positions and need to make proper strategic management to survive and success. strategic management is a critical function in the banking sector, as it enables banks to navigate the dynamic and competitive environment in which they operate. By focusing on customer needs, risk management, and sustainability, banks can develop strategies that ensure their long-term viability and success. The dynamic capabilities theory supports strategic management and performance in banks by providing a framework for understanding how organizations can adapt and innovate in response to changing market conditions. In addition, the Contingency Theory supports strategic management and performance in banks by emphasizing the importance of tailoring strategies and management practices to the unique characteristics of the bank's environment. Therefore, this research is to proposed a conceptual framework for the impact of the strategic management practices (environmental scanning, strategy formulation, strategic implementation, strategic evaluation) on the organisational performance in the banking industry. This paper is conceptual paper to identify the most antecedents of strategic management that studied in the previous empirical studies of Banking industry. The next step of this research is to empirically examine the conceptual framework in banking sector in Saudi Arabia. In addition, scholars can examine the model in different countries to evaluate the proposed hypotheses and provide different results to compare between countries.

*Keywords: Strategic Management, Organisational Performance, Environmental Scanning, Strategy Formulation, Strategic Implementation, Strategic Evaluation.*

## Introduction

The banking industry is a highly competitive and dynamic sector that plays a crucial role in the economy by facilitating transactions and providing financial services to individuals and businesses (Broby, 2021). In order to remain competitive and achieve long-term success, banks must adopt effective strategic management practices. Strategic management is the process of setting goals, developing plans, and implementing actions that enable organizations to achieve their goals and objectives. In the context of the banking industry, strategic management can have a significant impact on organizational performance (Bryson & George, 2020; Irawati et al., 2019).

One of the key effects of strategic management on organizational performance in the banking industry is improved profitability. By setting clear goals and implementing effective plans to achieve them, banks can increase revenue and reduce costs, resulting in higher profits (Broby, 2021; Othman et al., 2020; Al-Maamari, Al-Absy, Alkadash, & Alzgool, Abdullah, M. A., & Bojiah, J. (2020) ). Additionally, effective strategic management can lead to increased market share and improved customer satisfaction, which can also contribute to improved profitability. For example, a bank that is able to offer a wide range of financial products and services that meet the needs of its customers is more likely to attract and retain those customers, resulting in increased revenue (Chungyas & Trinidad, 2022; Roghanian et al., 2012).

Another important effect of strategic management on organizational performance in the banking industry is improved efficiency. Banks that implement effective strategic management practices are able to streamline their operations and improve the way they use resources, resulting in greater efficiency (Mansaray, 2020).. This can be achieved through the implementation of technology, such as automation, or by reorganizing the way the bank operates. This improved efficiency can lead to increased productivity, reduced costs, and faster delivery of services, which ultimately contributes to the overall performance of the bank (Gitahi & Misango, 2020).



* Corresponding author Email: Shaaszidan@stu.aydin.edu.tr

Effective strategic management can also lead to greater innovation in the banking industry. By setting clear goals and encouraging creativity and experimentation, banks can develop new and improved products and services that can meet the changing needs of their customers. This can help banks to stay ahead of their competitors and remain relevant in the rapidly-changing banking industry ( Al Balushi, et al., 2022; Hanif et al., 2022; Roghanian et al., 2012).

In addition, Strategic Management have a positive impact on risk management. Banks are required to manage and mitigate various types of risks, including credit risk, market risk, and operational risk. Effective strategic management can help banks to identify and assess these risks, develop plans to manage them, and implement effective controls to mitigate them. This can lead to a reduction in potential losses, which can improve the overall performance of the bank (Isoh & Nchang, 2020).

Overall, strategic management is a vital aspect of the banking industry, and its effects on organizational performance are significant. By setting clear goals, developing effective plans, and implementing actions to achieve them, banks can improve profitability, efficiency, innovation, and risk management. These improvements can ultimately lead to greater success and long-term sustainability for the bank. In conclusion, Strategic management is an important tool that can help banks achieve their goals and improve their performance. By setting clear goals, developing effective plans, and implementing actions to achieve them, banks can improve profitability, efficiency, innovation, and risk management. This can lead to greater success and long-term sustainability for the bank, which is critical in today's competitive and dynamic banking industry. Therefore, this research is to proposed a conceptual framework for the impact of the strategic management practices (environmental scanning, strategy formulation, strategic implementation, strategic evaluation) on the organisational performance in the banking industry.

## Literature Review

### *Organizational Performance in Banking Industry*

The concept of organizational performance has been based upon the idea that an organization is a voluntary association of productive assets, including human, physical, technological and capital resources, in order to achieve a common purpose (Roghanian et al., 2012). Organizational performance encompasses three specific areas of firm outcomes: Financial performance (profits, return on assets, return on investment, etc.); market performance (sales, market share, etc.); and shareholder return (total shareholder return, economic value added, etc.) (Chungyas & Trinidad, 2022; Roghanian et al., 2012). The successful performance of and organisation does not only depend on good economic performance, but rather on the way the entrepreneurs and employees work together and fulfil their activities and objectives in a joint and coordinated basis (Chungyas & Trinidad, 2022).

Organizational performance in the banking sector refers to the overall efficiency and effectiveness of a bank in achieving its goals and objectives. This includes measures such as financial performance (such as profitability and return on investment), customer satisfaction and loyalty, employee satisfaction and retention, and compliance with regulations and industry standards. A bank with strong organizational performance will be able to effectively manage its resources and operations, deliver high-quality products and services to its customers, and maintain a positive reputation within the industry (Tuan, 2020).

### *Strategic Management Practices*

Strategic management is a process that involves the formulation and implementation of the major goals and initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes. The process can be broken down into four main components: environmental scanning, strategy formulation, strategic implementation, and strategic evaluation (Bryson & George, 2020; Fuertes et al., 2020).

Environmental scanning refers to the process of collecting and analyzing information about the external and internal factors that can impact an organization. This includes both opportunities and threats in the external environment, as well as the organization's strengths and weaknesses in the internal environment. Environmental scanning helps organizations to identify and understand the trends and forces that may influence their operations, such as economic conditions, technological changes, and shifts in customer preferences (Ginter et al., 2018; Hambrick, 1982).

Strategy formulation is the process of developing a plan of action to achieve the organization's goals and objectives. This involves analysing the information gathered through environmental scanning and identifying the most appropriate course of action based on the organization's resources and capabilities. Strategy formulation typically involves the use of tools such as SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis and Porter's Five Forces model to assess the organization's internal and external environment (Bose, 2020).

Strategic implementation is the process of putting the formulated strategy into action. This involves assigning resources and tasks, aligning the organization's structure and systems with the strategy, and establishing performance metrics to measure progress. Effective strategic implementation requires strong leadership, clear communication, and the ability to adapt to changing circumstances (Dzwigol et al., 2019).

Finally, strategic evaluation is the process of assessing the effectiveness of the organization's strategy and making any necessary adjustments. This involves regularly reviewing the organization's performance against its goals and objectives and comparing it to industry benchmarks. By conducting a strategic evaluation, organizations can identify areas for improvement and make necessary adjustments to their strategy to ensure continued success (Dzwigol et al., 2019; Shammi et al., 2021).

*The Dynamic Capabilities Theory*

Dynamic capabilities theory (DCT) is a relatively recent framework that has been developed to help explain how organizations can adapt to changing environments and create sustained competitive advantages. DCT suggests that organizations need to be able to continually identify and exploit new opportunities and to renew their existing capabilities in order to achieve long-term success. In the context of banks and other financial institutions, understanding and developing dynamic capabilities can be critical for strategic management.

One of the key ideas in DCT is that organizations need to be able to sense and seize opportunities in their external environment. For banks, this might involve identifying new market trends, such as the growing demand for digital banking services, or changes in regulations that might open up new opportunities for growth. By staying attuned to these kinds of changes, banks can position themselves to take advantage of new opportunities and to stay ahead of their competitors.

Another important aspect of DCT is the need for organizations to be able to transform themselves in response to new opportunities. This might involve developing new products or services, changing business models, or investing in new technologies. In the banking industry, this might involve moving from a traditional brick-and-mortar model to a more digital one, or developing new financial products that cater to the needs of specific customer segments. By being able to transform themselves in this way, banks can adapt to changing environments and create sustained competitive advantages.

In addition to these two key aspects of DCT, organizations also need to be able to renew their existing capabilities. This might involve updating their technology platforms, improving their operational efficiencies, or fostering a culture of innovation. For banks, this might involve investing in new technologies to improve the customer experience, such as using artificial intelligence to provide personalized financial advice or using blockchain technology to make transactions more secure.

Dynamic Capabilities theory provides a holistic framework for understanding how organizations can create and sustain competitive advantages. For banks and other financial institutions, developing dynamic capabilities can be crucial for strategic management, as the banking industry is highly competitive and continually undergoing change due to factors such as new technologies, changing customer needs, and regulations. By staying attuned to these changes and being able to sense and seize opportunities, transform themselves, and renew their existing capabilities, banks can position themselves to create sustained competitive advantages and achieve long-term success.

In conclusion, the dynamic capabilities theory supports strategic management and performance in banks by providing a framework for understanding how organizations can adapt and innovate in response to changing market conditions. By developing the dynamic capabilities of sensing and seizing opportunities, reconfiguring resources, and learning and integrating new knowledge, banks can respond to new opportunities and threats in the market, and adapt their strategies accordingly. As a result, banks can achieve competitive advantage and improve their performance.

*The Contingency Theory*

The Contingency Theory, also known as the "configuration theory," argues that there is no one best way to manage an organization and that the most effective approach will depend on the specific circumstances of the organization. In the context of strategic management and performance in banks, the Contingency Theory suggests that banks must tailor their strategies and management practices to the unique characteristics of their environment.

One of the key concepts of the Contingency Theory is the idea that different situations require different management approaches. In the banking industry, this means that banks must consider the specific characteristics of their environment, such as market conditions, regulations, and competition, when developing their strategies and management practices. For example, a bank operating in a highly regulated environment may need to adopt different strategies and management practices than a bank operating in a less regulated market.

Another important concept of the Contingency Theory is that different aspects of an organization's environment can have different effects on the organization's performance. In the banking industry, this means that banks must consider the impact of various factors, such as economic conditions, interest rates, and competition, on their performance. Banks must also be aware of how these factors may change over time and adjust their strategies and management practices accordingly.

The Contingency Theory also suggests that organizations must be flexible and adaptable in order to be successful. In the banking industry, this means that banks must be able to respond quickly to changes in their environment and be willing to adjust their strategies and management practices as needed. Banks must also be able to identify and capitalize on opportunities that arise, while also being prepared to deal with challenges that may arise.

In conclusion, the Contingency Theory supports strategic management and performance in banks by emphasizing the importance of tailoring strategies and management practices to the unique characteristics of the bank's environment. It also highlights the importance of being flexible and adaptable in response to changes in the environment and the need to consider the impact of various factors on the bank's performance. By taking these concepts into account, banks can increase their chances of success in a highly competitive and constantly changing industry

*Conceptual Framework of the Study*

The proposed conceptual framework of this research composed of four independent variables belongs to strategic management practices; environmental scanning, strategy formulation, strategic implementation, and strategic evaluation. The four strategic management practices supposed to have influence on the organisational performance in the banking industry. Figure 1 shows the conceptual framework and research hypothesis.

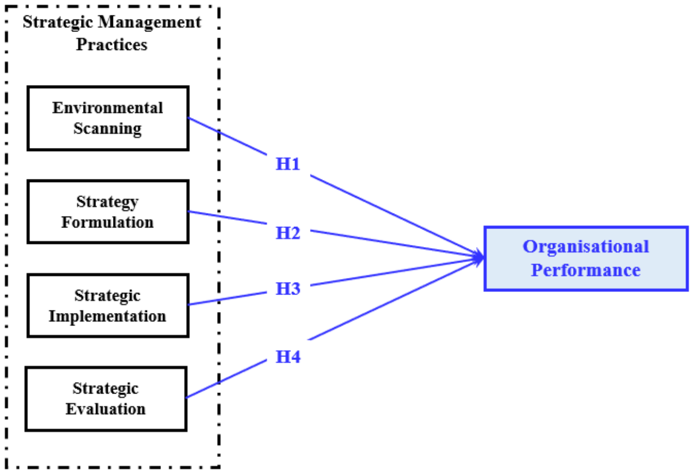


**Fig. 1.** Conceptual Framework of the Study

Environmental scanning refers to the process of collecting and analysing information about internal and external factors that may affect an organization. By monitoring and analysing these factors, organizations can anticipate opportunities and threats, and adjust their strategies accordingly (Kabeyi, 2019). There is evidence that strategic environmental scanning can have a significant impact on organizational performance (Palanisamy et al., 2022; Sirajuddin et al., 2017). Therefore, the following hypothesis is assumed.

H1: Environmental scanning has a significant positive influence on the organisational performance.

Strategy formulation is the process of creating a plan of action for achieving a specific goal or set of goals. When done effectively, strategy formulation can have a significant positive influence on organizational performance (Steiss, 2019). One of the primary benefits of strategy formulation is that it helps organizations to align their resources and efforts with their overall mission and objectives. This can lead to increased efficiency and productivity, as well as greater success in achieving their goals. Additionally, strategy formulation can help organizations to anticipate and respond to changes in the external environment, such as shifts in consumer demand or changes in regulations. This can help organizations to remain competitive and adapt to new challenges (Chungyas & Trinidad, 2022; Henry, 2021; Sirajuddin et al., 2017).

There is evidence that strategy formulation can have a significant impact on organizational performance (Hanif et al., 2022; Palanisamy et al., 2022). Therefore, the following hypothesis is assumed.

H2: Strategy formulation has a significant positive influence on the organisational performance.

Strategic implementation, also known as strategy execution, refers to the process of taking the plans and decisions that have been developed as part of the strategic planning process and putting them into action (Ginter et al., 2018). Effective strategic implementation can have a significant positive influence on organizational performance, by helping the organization to achieve its goals and objectives and to adapt to changes in the external environment. A well-executed strategy can help an organization to optimize its resources, improve its competitiveness, and increase its profitability (Bose, 2020; Irawati et al., 2019). Overall, effective strategic implementation is critical for an organization's success. There is evidence that strategic implementation can have a significant impact on organizational performance (Gunarathne et al., 2021; Hanif et al., 2022). Therefore, the following hypothesis is assumed.

H3: Strategic implementation has a significant positive influence on the organisational performance.

Strategic evaluation is an important process for organizations to assess the effectiveness of their strategies and make any necessary adjustments. This can include assessing the performance of different departments or business units, evaluating the effectiveness of specific initiatives or programs, and measuring progress towards overall organizational goals (Bryson & George, 2020; Ginter et al., 2018). When done effectively, strategic evaluation can have a positive impact on organizational performance. Strategic evaluation can provide valuable feedback to key stakeholders, such as managers, employees, and shareholders. This can increase transparency and accountability within the organization, and promote a culture of continuous improvement (Bryson & George, 2020; Roghanian et al., 2012). In summary, strategic evaluation can play a significant role in organizational performance and competitiveness. There is evidence that strategic evaluation can have a significant impact on organizational performance (Clauss et al., 2019; Gunarathne et al., 2021). Therefore, the following hypothesis is assumed.

H4: Strategic evaluation has a significant positive influence on the organisational performance.

## Research Methodology

This paper is a conceptual analysis that based on the literature review analysis and no empirical or statical data analysis are included. The strategy used is deep investigating in the existing knowledge to identify the concepts of strategic management that can impact the organizational performance in the banking industry. The research final results is the developed hypotheses, therefore, this research is inductive approach.

## Conclusion and Recommendations

This paper is conceptual paper to identify the most antecedents of strategic management that studied in the previous empirical studies of Banking industry. Four antecedents can be identified; environmental scanning, strategy formulation, strategic implementation, strategic evaluation. Those variables integrated into one conceptual framework and have not been empirically examined yet. The next step of this research is to empirically examine the conceptual framework in banking sector in Saudi Arabia. In addition, scholars can examine the model in different countries to evaluate the proposed hypotheses and provide different results to compare between countries.

## References

Al-Maamari, Q. A., Al-Absy, M. S., Alkadash, T., Alzgool, M. R., Abdullah, M. A., & Bojiah, J. (2020). THE Moderating Effect of Organizational Culture on the Relationship Between Total Quality Management Practices and Individual Readiness for Tqm Implementation at Yemen Oil Unit. PalArch's Journal of Archaeology of Egypt/Egyptology, 17(7), 6204-6230.

Al Balushi, F. S. M., Ali, A. A. A., & Alzoraiki, M. (2022). The Impact of Forecasting Strategy and Training and Development Strategy on Preparing Leadership Competencies Administrative Support in the Sultanate of Oman. International Journal of Intellectual Human Resource Management (IJIHRM), 3(01), 34-41.

Bose, I. (2020). Strategic Competitive analysis of a banking organization in UAE: A study on Dubai Islamic Bank, UAE. *The USV Annals of Economics and Public Administration*, *20*(1 (31)), 90–104.

Broby, D. (2021). Financial technology and the future of banking. *Financial Innovation*, *7*(1), 1–19.

Bryson, J., & George, B. (2020). Strategic management in public administration. In *Oxford Research Encyclopedia of Politics*.

Chungyas, J. I., & Trinidad, F. L. (2022). Strategic management practices and business performance of cooperatives in Ifugao, Philippines: basis for strategic planning model. *International Journal of Management & Entrepreneurship Research*, *4*(2), 84–104.

Clauss, T., Abebe, M., Tangpong, C., & Hock, M. (2019). Strategic agility, business model innovation, and firm performance: an empirical investigation. *IEEE Transactions on Engineering Management*, *68*(3), 767–784.

Dzwigol, H., Shcherbak, S., Semikina, M., Vinichenko, O., & Vasiuta, V. (2019). Formation of strategic change management system at an enterprise. *Academy of Strategic Management Journal*, *18*, 1–8.

Fuertes, G., Alfaro, M., Vargas, M., Gutierrez, S., Ternero, R., & Sabattin, J. (2020). Conceptual framework for the strategic management: a literature review—descriptive. *Journal of Engineering*, *2020*.

Ginter, P. M., Duncan, W. J., & Swayne, L. E. (2018). *The strategic management of health care organizations*. John Wiley & Sons.

Gitahi, O. K., & Misango, S. (2020). The Influence of Customer Retention Strategies on the Organization Performance of Commercial Banks in Thika Town. *European Journal of Business and Strategic Management*, *5*(2), 11–29.

Gunarathne, A. D. N., Lee, K., & Hitigala Kaluarachchilage, P. K. (2021). Institutional pressures, environmental management strategy, and organizational performance: The role of environmental management accounting. *Business Strategy and the Environment*, *30*(2), 825–839.

Hambrick, D. C. (1982). Environmental scanning and organizational strategy. *Strategic Management Journal*, *3*(2), 159–174.

Hanif, N., Arshed, N., & Farid, H. (2022). Competitive intelligence process and strategic performance of banking sector in Pakistan. *Int. J. Bus. Inf. Syst.*, *39*(1), 52–75.

Henry, A. (2021). *Understanding strategic management*. Oxford University Press.

Irawati, N., Maksum, A., Sadalia, I., & Muda, I. (2019). Financial performance of Indonesian's banking industry: The role of good corporate governance, capital adequacy ratio, non-performing loan and size. *International Journal of Scientific and Technology Research*, *8*(4), 22–26.

Isoh, A. V. N., & Nchang, N. D. (2020). Assessing The Impact of Operational Risk Management on Financial Performance of Selected Mainstream Commercial Banks in Cameroon. *International Journal of Research In Commerce and Management Studies (ISSN: 2582-2292)*, *2*(2), 1–16.

Kabeyi, M. (2019). Organizational strategic planning, implementation and evaluation with analysis of challenges and benefits. *International Journal of Applied Research and Studies*, *5*(6), 27–32.

Mansaray, H. (2020). Organizational Strategies and Performance in the Banking Industry Focused on the Transnational Banks in Sierra Leone: An Ex Post Facto Study. *Budapest International Research and Critics Institute-Journal (BIRCI-Journal)*, 3185–3196.

Othman, B., Khatab, J. J., Esmaeel, E. S., Mustafa, H. A., & Sadq, Z. M. (2020). The Influence of Total Quality Management on Competitive Advantage towards Bank Organizations: Evidence from Erbil/Iraq. *International Journal of Psychosocial Rehabilitation*, *24*(5), 3427–3439.

Palanisamy, S., Chelliah, S., & Muthuveloo, R. (2022). The Influence of Strategic Agility on Organizational Performance during Pandemic: A Perspective of SMEs in Manufacturing Sector. *Tenth International Conference on Entrepreneurship and Business Management 2021 (ICEBM 2021)*, 30–35.

Roghanian, P., Rasli, A., & Gheysari, H. (2012). Productivity through effectiveness and efficiency in the banking industry. *Procedia-Social and Behavioral Sciences*, *40*, 550–556.

Shammi, M., Bodrud-Doza, M., Islam, A. R. M., & Rahman, M. (2021). Strategic assessment of COVID-19 pandemic in Bangladesh: comparative lockdown scenario analysis, public perception, and management for sustainability. *Environment, Development and Sustainability*, *23*(4), 6148–6191.

Sirajuddin, O., Arif, M. R., & Jayadi, J. (2017). The Effect of Strategic Management Practices on SME Performances in Makassar, Indonesia. *American Journal of Theoretical and Applied Business*, *3*(4), 71–80.

Steiss, A. W. (2019). *Strategic management for public and nonprofit organizations*. Routledge.

Tuan, T. T. (2020). The impact of balanced scorecard on performance: The case of Vietnamese commercial banks. *The Journal of Asian Finance, Economics and Business*, *7*(1), 71–79.