

# The Impact of Strategic Attributes on Organizational Performance in Pakistan Banking Sector: A Review and Suggestions for Future Research

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## Abstract

In recent years, the business environment of banking sector has become very dynamic and highly competitive due to the globalization and massive developments in this sector. Also, the banking organizations have faced a lot of challenges. In order to deal with the business challenges and to attain the superior organizational performance, the banking organizations need to be strategically positioned, market oriented (both internally and externally) and to develop and encourage strong organizational culture. Drawing from the resource-based view (RBV) theory, this study aims to propose the novel conceptual model representing the impact of strategic attributes such as, strategic orientation, organizational culture and organizational internal market orientation on the organizational performance. This study also highlighted the critical role of these strategic attributes in the organizations and need to study them at the organizational level in the banking organization. Based on the review of relevant literature, three research propositions have been proposed. The proposed conceptual model would hopefully lead to very useful insights for the bank management, policy makers and future researchers.

**Keywords:** Strategic Orientation, Organizational Culture, Organizational Internal Market Orientation, RBV, Banking Organizations.

## **1. Introduction**

In the current era of globalization, the business environment is continuously changing and to deal with the market challenges, organizations need to evaluate their both internal and external environment factors which helps in achieving the competitive advantage and enhanced performance (Faiz, 2015). However, how the enhanced performance can be achieved and what organizational strategies should be considered by the management is still the issue that needs to be further investigated.

In the field of organizational behavior, the strategic management is considered as one of the most important factors that contributes in achieving the enhanced organizational performance (Innocent, 2015). Whereas, strategic management deals with the development, implementation and controlling of the strategic decisions based on the objectives of an organization and also examined the current and future business environments (Ronda-Pupo & Guerras-Martin, 2012). Moreover, it is found that the implementation of the strategic management practices has a significant and positive effect on organizational profitability and increases the market share (Dauda, Akingbade, & Akinlabi, 2010). Furthermore, studies in the area of marketing posited that organizations with market-oriented behavior (internal and external) perform better and likely to gain competitive advantage over rivals, which in turn leads to superior organizational performance (Ferdous & Polonsky, 2011; Farrell et al., 2008). In addition, it is also now well established from a variety of studies, that the organizational performance will be increases if the organization develops and continuously encourage the strong organizational culture (Ahmed & Othman, 2017).

When we looked into the global economy, the importance of the services sector has been increasing due to their rise in the contribution to the overall economy. While, the banking segment, as the main part of the services sector, has been facing the series of challenges, the changing business environment and markets over the last several years (Bhatnagar et al., 2016). Moreover, the financial/banking crisis have shown the need of effective management strategies in order to gain the sustainable competitive advantage in the marketplace (Acar et al., 2013). Apart from his intermediary role between the money lenders and borrowers, banking organizations also contribute to the GDP of a country, provide the financial services to the other sectors to contribute to the economy and more importantly provide the employment opportunities to the youth of the country which helps in reducing the poverty and unemployment level in the country (Ahmed & Othman, 2017; Rotheli, 2010). Therefore, the role played by the banks in the society and their performance (either good or bad) would not only be of concern to shareholders and stakeholders but also equally important to researchers and scholars.

Particularly, the banking sector of Pakistan has also been facing many ups and downs over the last several years although the 95% of the financial sector is based on the banking system (Shahid et al., 2015; Butt, 2010). Besides, international monetary fund (IMF) has anticipated the Pakistan slower economic growth in the upcoming few years (IMF WEO, 2015) while the Pakistan economic figures also reported the lower contribution of the financial/banking sector to the GDP of a country than the other sectors of Pakistan (Pakistan Economic Survey, 2016; Trading Economics, 2017). Furthermore, the study conducted by the World Bank on the South Asian banking sector including the Pakistan has found the numerous internal factors affecting the banking performance adversely such as, poor administration, weak supervision system, ineffective HR policies, low employee's commitment, politicized culture and limited computerization; consequently, these factors lead to employment issues, increased non-

performing loans, high operational cost, limited public investments and economic growth (Ahmed & Othman, 2017; Namgyel, 2003).

Besides, the State Bank of Pakistan (SBP) acknowledged that even with the current banking reforms, "Pakistan's banking sector is still not able to carry out its basic and core function" (Kamran, 2017). Moreover, the Federal Minister for Planning, Development and Reforms of Pakistan also announced the vision of Pakistan while directing to the banks executives and said that, "Making Pakistan one of top 25 economies of the world by 2025 requires very concerted and coordinated efforts by stakeholders who are involved in economic management of the country," adding to this he further said that, "We have not been able to realize our true potential in many areas including industry, export, agriculture and human resources due to lack of shared vision" (Pakistan Today, 2016). Considering the given facts, henceforward, there is a need to evaluate those factors which hindering in achieving the superior banking performance. Also, Butt (2010) revealed that in developing countries like Pakistan, very limited studies have been focused on the banking performance. In studying the factors affecting the organizational performance, Kareem and Haseeni (2015) found that internal factors directly affect the organizational performance and are in the control of an organization while the external factors are not in the organizational control.

Therefore, in order to gain the enhanced organizational performance and sustainable competitive advantage, it is essential for the organizations to be strategically positioned, market-oriented (internally and externally) and should develop the strong organizational culture. Considering this philosophy, the current aim of the study is to propose the novel conceptual model representing the direct impact of strategic attributes such as strategic orientation (SO), organizational culture (OC) and organizational internal market orientation (OIMO) on organizational performance (OP) in the banking sector of Pakistan. Moreover, the investigation of the proposed conceptual model will also enhance our understanding of the implementation of these strategic attributes at organizational level and their impact on the organizational performance. Also, this study provides the foundation for the future empirical studies.

The next section review the resource-based view (RBV) related to the relationship between organizational resources and organizational performance along with the bank resources and organizational performance. Then, a review of literature on the relationship between strategic attributes (SO, OC, OIMO) and organizational performance is discussed and proposed the research propositions. Next, a proposed conceptual model is presented. This is followed by a methodology, discussion, conclusion and implications.

## **2. Underpinning Theory**

Mostly theories in the field of organizational behavior have focused on the relationship between organizational performance and its antecedents. However, the theory of resource-based view (RBV) provides a useful account of how the organizational resources lead towards sustainable competitive advantage and superior performance. This theory also underpinned the proposed conceptual model presented in current study.

### **2.1 Resource Base View (RBV) Theory**

The resource-based view (RBV) conceptualized that organizational resources may be heterogenous in nature and permanently retain by the organizations (Barney, 1991). Differences in the organizational performance are due to the varied organizational resources and capabilities that are rare, valuable, non-substitutable and inimitable (Chien, 2014;

Barney, 1991; Wernerfelt, 1995). Moreover, organizations can only have sustained competitive advantage when its implemented strategies could not easily be copied by the rivalry firms (Hsu & Pereira, 2008; Barney, 1991). Numerous scholars in the area of marketing, organizational behavior and strategic management have focused on the central question, “how to leverage resources in creating and sustaining competitive advantage for an organization” and linked the various type of marketing and strategic assets and capabilities which ultimately enhanced the organizational performance (Hinterhuber, 2013; Srivastava, Fahey, & Christensen, 2001; Srivastava, Shervani, & Fahey, 1999; Hunt & Morgan, 1995; Day, 1994).

In addition, RBV posited that the organizational resources/assets including both tangible (e.g. human, technological, physical, financial) and intangible (e.g. knowledge, goodwill, employee’s skills) that can be used to provide the quality goods and services to the customers (Barney, 1991). Whereas, organizational capabilities or competencies referred as the organizational abilities to efficiently and effectively utilize the available resources in order to attain the stated goals (Barney, 1991). Accordingly, these resources and capabilities of an organization are necessary for the strategic management practices that would lead to the enhanced organizational performance (Newbert, 2007). Likewise, an organization can only gain competitive advantage if its implemented strategies are not concurrently implemented by the rivalry organizations (Newbert, 2007; Barney, 1991).

Furthermore, organizational culture can also serve as a source of competitive advantage only if it is rare, inimitable and valued (Barney, 1986). According to Lee and Yu (2004) the organizations striving for the superior performance should have a unique culture that could not be copied by the competitors. Besides, past studies recommended that the organizations should equally manage their both internal marketing factors (e.g. people, processes) as well as external marketing factors (e.g. customers, competitors) (Carter & Gray, 2007; Day, 1994). The adoption of IMO or internal marketing organizational behavior will guide the organizations in analyzing their employee’s needs and then responds to satisfy them (Gounaris, 2006; Berry, 1981). These satisfied employees (internal customers) will become more motivated and creates value for the external customers. Hence, internal market orientation can also be considered as a unique organizational resource which is internally rooted and contribute to the organizational performance (Fang et al., 2014; Barney, 1991).

The underlying theme regarding the relationship between strategic orientation, organizational culture, organizational internal market orientation and organizational performance is to strengthen the organizational capability to enhance resources that will differentiate the organization from their competitors. Moreover, organizations striving for the superior organizational performance, its strategic attributes should be rare, inimitable, non-substitutable and valued (Ahmed & Othman, 2017; Innocent, 2015; Pinho et al., 2014; Fang et al., 2014; Uz Kurt et al., 2013; Al-Swidi, 2012; Weinzimmer et al., 2012). Therefore, the management should encourage the implementation of these strategic attributes in order to attain the sustainable competitive advantage and superior performance.

Based on the propositions of the RBV, the current study regarded the strategic orientation, organizational culture and organizational internal market orientation as an organization’s unique resources which can directly contribute to the growth of an organization.

## **2.2 Banks’ Resources and Organizational Performance**

The RBV viewpoints confirms the organizational competitiveness and enhanced organizational performance (Barney, 1986). Continuing the RBV propositions, the

organizational (bank) tangible resources referred to physical objects such as, human, technological, locations, financial capital, building and other facilities whereas the intangible resources referred as knowledge, goodwill, efficient internal marketing practices, strong culture, employees skills, capabilities and strategic orientation (Ahmed & Othman, 2017; Innocent, 2015; Pinho et al., 2014; Fang et al., 2014; Uz Kurt et al., 2013; Al-Swidi, 2012; Weinzimmer, Robin, & Michel, 2012; Bakar & Ahmad, 2010).

Furthermore, the intangible resources mostly regarded as a strategy and more significantly contribute to the effectiveness of tangible resources and organizational success. The importance of intangible resources could easily be derived from their rarity, value and inimitability characteristics which differentiate the organization from its competitors (Bakar & Ahmed, 2010). Hence, these main resources could help the organizations in achieving the sustainable competitive advantage (Newbert, 2007; Barney, 1991).

### **3. Literature Review and Research Propositions**

This section attempts to review the recent research into the relationship between strategic orientation, organizational culture, organizational internal market orientation and organizational performance. Moreover, grounded on the literature review the research propositions have been established.

#### **3.1 Strategic Orientation and Organizational Performance**

The organizational strategy may emerge over time and it is normally planned at organizational level. Strategic orientation and strategic management practices work as an organizational philosophy, looks at short-term and long-term objectives, competitive situation, best utilization of organizational resources, competences, facilitates entrepreneurial activities and more importantly undertake the market-based products and services decisions (Hameed & Ali, 2011; Covin & Slevin, 1991). The notion of strategic orientation has been defined as, “the inclination of a firm to focus on strategic direction and proper strategic fit to ensure superior firm performance” (Weinzimmer et al., 2012;). Moreover, the strategic orientation is responsible for the success or failure of an organization (Okpara & Kabongo, 2011). Similarly, the strategic orientation works as an organizational capability that shows the strategic direction which an organization follows to develop appropriate actions in order to achieve the competitive advantage and superior performance (Hortinha, Lages & Filipe Lages, 2011).

A considerable amount of literature has been published on organization’s orientations. These studies have considered different types of orientation such as market orientation (MO), entrepreneurial orientation (EO), learning orientation (LO), and technology orientation (TO) as predictors of the organizational performance (Song & Jing, 2017; Aminu, 2015; Samson, 2015; Ariyaratne, 2014; Lee, Choi & Kwak, 2014; Aziz & Yassin, 2010). Furthermore, in the pertinent literature, these types of orientation have also been studied as the dimensions of strategic orientation and/or studied with different contingent variables in examining the organizational performance (Lee et al., 2014; Hakala, 2011; Hakala, 2010).

Furthermore, numerous empirical studies have attempted to explain the relationship between strategic orientation and organizational performance and indicated the positive correlation (e.g. innocent, 2015), weak correlation (e.g. Lee et al., 2001) and no correlation (e.g. Slater and Narver, 2000). Although, some past studies revealed that strategic orientation did not affect the organizational performance (Obeidat, 2016; Al-Ansaari, Bederr, & Chen, 2015; Altuntaş, Semerciöz, & Eregez, 2013; Deshpandé et al. 2013), but in contrast, some studies found that strategic orientation has a positive effect on organizational performance

(Innocent, 2015; Eris & Ozmen, 2012; Altindag, Zehir, & Acar, 2011). This contradiction of results is due to the adoption of different measures of strategic orientation and organizational performance. Nevertheless, there are still some deficiencies in existing studies (Song & Jing, 2017).

In addition, the empirical studies examining the effect of strategic orientation (as a unidimensional construct) on organizational performance are limited (Innocent, 2015; Weinzimmer et al., 2012). Cadogan (2012) also recommended that the future researchers should go beyond the existing methodological boundaries and integrate the individual strategic orientation with the organizational performance. They further stated that the studies into the relationship between strategic orientation and organizational performance are limited within the field of organizational behavior and recommends to study in the other developing nation context (Cadogan, 2012; Salavou & Halikias, 2009).

The evidence reviewed here seems to suggest a pertinent role of strategic orientation in the organization and its contribution towards organizational performance. Drawing on an extensive range of sources, it is concluded that there is a paucity of researches on the relationship between strategic orientation (as a unidimensional construct) and organizational performance. Also, due to the inconclusive findings, this relationship needs to be further studied especially in the context of developing economies like Pakistan. Thus, it is proposed that,

**RP1:** Strategic Orientation is positively related to Organizational Performance.

### **3.2 Organizational Culture and Organizational Performance**

In the field of organizational behavior, the organizational culture is considered as an important internal factor which influences every aspect of an organization such as organizational performance and organizational effectiveness (Rauch et al., 2009; Nazir & Lone, 2008). Moreover, organizational culture develops the organizational behavior in relation to deal with the internal and external environment factors (Uzkurt et al., 2013; Sokro, 2012; Abdul Rashid et al., 2003). In the pertinent literature, there are a large number of cross-sectional studies which confirms the direct and indirect effects of organizational culture on the performance of an organization (Sokro, 2012; Chuang, Morgan, & Robson, 2012; Nazir & Lone, 2008; Mannion et al., 2005; Abdul Rashid et al., 2003). While in contrast, some studies stated that the association between organizational culture and organizational performance is still underdeveloped both theoretically and empirically (Uzkurt et al., 2013; Weinzimmer et al., 2012; Sackman, 2010). Moreover, Han and Verma (2012) reported that the several studies have attempted to determine the organizational performance through the organizational culture and/or strategic orientation, but still the findings have been varying.

As an organizational resource, it increases the organizational competencies, capabilities and productivity (Boon & Arumugam, 2006; Silverthorne, 2004). In addition, it is stated that the flexible organizational culture performs better in the strategy formulation and implementation (Ahmadi et al., 2012). Schein (1984) support this notion and stated that the organizational distinction is based on its internal culture. Likewise, to implement the organizational strategies successfully, organizations should alter their culture and align employees attitude with the organizational strategies (George, 1990). Moreover, Choosawat (2011) stated that strong culture influence the management performance and lead towards the organizational development. Numerous studies in the pertinent literature have confirmed this fact and revealed that organizational culture impacts on organizational success through

the attainment of individually and organizationally desired goals (Messner, 2013; Nongo & Ikyanyon, 2012; Sabir, Razzaq, & Yameen, 2010; MacIntosh & Doherty, 2010).

In earlier studies on organizational culture, many studies have attempted to explain the relationship between organizational culture and organizational performance and most of them have found positive support for this relationship (Çapuni, 2016; Innocent, 2015; Pinho et al., 2014; Zakari et al., 2013; Uzkurt et al., 2013; Al-Swidi, 2012; Ngo & Loi, 2008; Daft, 2007; Chan et al., 2004). In view of all that has been mentioned so far, one may suppose that organizational culture is positively related to organizational performance however, such studies remain narrow in focus dealing only with one or two aspects of organizational performance. Overall, these studies highlight the need for further empirical examination into the relationship between organizational culture and organizational performance, and with other organizational variable on the organizational performance (Uzkurt et al., 2013; Fey & Denison, 2003). Moreover, mostly studies examining this relationship have been conducted in the developed countries and very limited have focused in the developing countries context, thus the current study recommends to examine this relationship in the context of developing country like Pakistan and especially in the banking sector of Pakistan. Hence, it is proposed that,

**RP2:** Organizational Culture is positively related to Organizational Performance.

### **3.3 Organizational Internal Market Orientation and Organizational Performance**

Internal market orientation (IMO) plays a critical role in the smooth running of an organization. Moreover, it is a major area of interest within the field of organizational behavior and marketing. IMO is conceptualized as the exchange relationship between the employer and its employees (Lings & Greenley, 2005). Generally, the service marketing literature considered the employees as the internal customers and indicates that the exchange relationship is occur between both parties (organization and employees) where organizational values and resources (e.g. strong communication, economic and non-economic transactions, HR practices) have been exchanged between them (George, 1990; Berry, 1981). In gist, the main purpose of internal marketing practices is to attain the effective exchanges between the employer and its employees to develop the quality services environment and customer oriented behavior which is a pre-requisite for the superior organizational performance (George, 1990; Gronroos, 1990; Berry, 1981).

The internal market orientation behavior of an organization also called as organizational IMO deals with the strategic initiatives of an organization regarding the IMO process, and accordingly the positively implemented IMO process influences the both employee and organizational outcomes (Ferdous & Polonsky, 2011). Furthermore, in the marketing literature, the relationship between IMO and organizational performance has been examined significantly (Yu, Yen & Huang, 2016; Sahi et al., 2013; Martin JR & To, 2013; Zaman et al., 2012; Theodoridis & Panigyrakis, 2011; Lings & Greenley, 2010; Tortosa et al., 2009). The scholars revealed that the organizations with internal market oriented behavior outperforms than those who less emphasized on it (Lings & Greenley, 2010). Drawing upon this, it is found that IMO process leads to superior organizational performance. While, researches have been carried out on IMO, there have been few empirical investigations into the relationship between organizational IMO and organizational performance (Ferdous & Polonsky, 2011; Lings & Greenley, 2010; 2005).

Furthermore, in the pertinent literature, it is also indicated that the IMO is accompanying with the organizational culture that both factors effectively develops the organizational attitude

to deliver value to its internal customer, ultimately the organizational performance is also improved through the synergistic effects of both factors (IMO and organizational culture) (Pinho et al., 2014; Fang et al., 2014; Conduit & Mavondo, 2001). Moreover, Fang et al. (2014) and Ferdous and Polonsky (2011) discussed that management of an organization including the top managers and middle managers plays very vital role in the implementation of IMO process which develops the organizational IMO attitude and organizational culture. In addition, organizational IMO also impacts on other internal factors like organizational commitment, employee satisfaction, employee performance, and employee retention which all have positive effect on organizational performance (Kaur, Sharma, & Seli, 2008). Despite the importance of IMO, there remains a paucity of evidence on the relationship between organizational IMO and organizational performance especially in the banking sector (Zaman et al., 2012; Kaur et al., 2008).

In a nutshell, the IMO behavior of an organization works as the organizational competency, creates the competitive advantage and influences the organizational performance (Fang et al., 2014; Lings & Greenley, 2010; 2005). Also, this indicates a need to understand the perceptions of managers with respect to the implementation of IMO process and its impact on the organizational performance (Ferdous & Polonsky, 2011). Therefore, it is proposed that, **RP3: Organizational IMO is positively related to Organizational Performance.**

#### 4. Proposed Conceptual Model

Grounded on the review of the pertinent literature on RBV, given strategic attributes (strategic orientation, organizational culture, organizational IMO) and established research propositions (RPs), a novel conceptual model has been proposed in the current study and shown in figure 1.

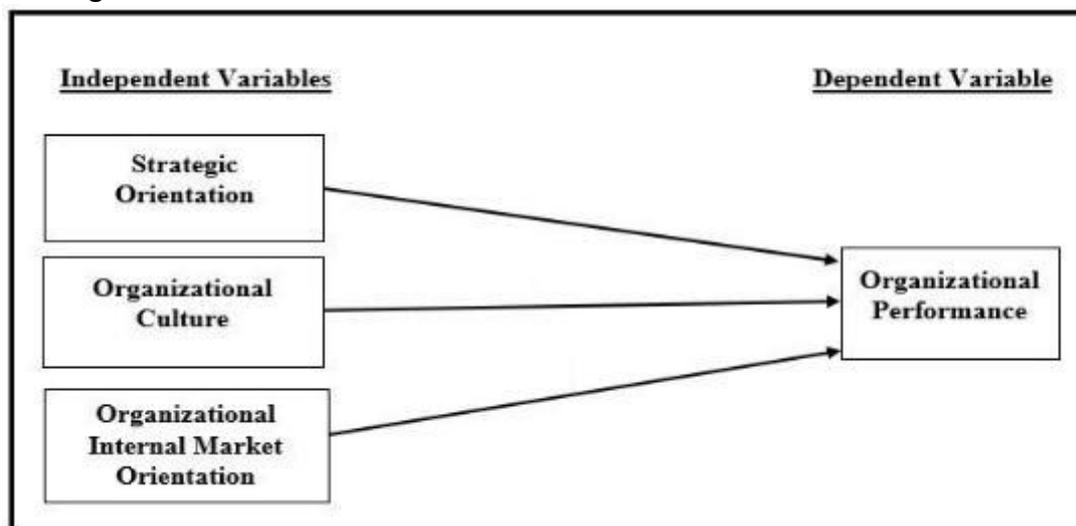


Figure 1: Conceptual Model

#### 5. Methodology

The purpose of this study is to propose a conceptual model signifying the impact of three important strategic attributes namely, strategic orientation, organizational culture and organizational IMO on the organizational performance. A holistic approach is utilized, integrating strategic orientation, organizational culture, organizational IMO and organizational performance material to establish the conceptual model and recommends to study its implementation in the banking sector of Pakistan. In order to establish the proposed

conceptual model, the researchers have gone through extensive review of relevant literature accessed from the numerous databases like EBSCO, Science Direct, ProQuest, Emerald, Taylor and Francis, and Scopus to ensure the reliability of the literature and to find the potential gaps in the past studies. Also, the RBV theory literature supports the proposed conceptual model. Furthermore, numerous publications such as, International Monetary Fund (IMF) report, World Bank survey, Pakistan Economic Survey 2016, and other important news articles from reliable sources have been studied to report the current situation of the Pakistan banking sector and to view the current implementation level of these strategic factors. In addition, the use of qualitative case studies approach is a well-established approach and followed in several past studies focusing on the banking sector. As the focus of proposed conceptual model on the organizational level and managers would be the respondents, therefore the current study suggests to study this model through the quantitative research design to find the empirical evidence which would also contribute both theoretically and practically. Further, different researchers used different measures to determine the organizational performance, for instance, some use financial measures and some use non-financial measures. The current study recommends to measure the banking performance from both perspective (financial and non-financial), which is also supported in the previous studies (Choudhary et al., 2013; Ringim, 2012; Ringim et al., 2012; Al-swidi, 2012; Nzuve & Omolo, 2012).

## **6. Discussion, Conclusion and Implications**

Recalling again that the main goal of the current study was to develop and propose the novel conceptual model indicating the impact of strategic attributes like strategic orientation, organizational culture and organizational IMO on the organizational performance. As discussed in the background, the Pakistan economy especially the banking sector has facing the numerous challenges and the government of Pakistan and the state bank of Pakistan (SBP) also highlighted that the banking sector of Pakistan should enhanced its performance in order to make stronger the Pakistan economy. Therefore, the current study considering these facts and recommends to study the proposed model in the banking sector of Pakistan. The proposed model will also provide the new insights for the future researches focusing either on banking sector or any other sector of Pakistan.

Furthermore, in the pertinent literature of organizational performance, scholars have recommended that the organizational internal factors affect the organizational performance and are under the organizational control (Kareem & Haseeni, 2015; Barrett et al., 2012; Covin & Slevin, 1991). Therefore, the focus of the current study is on the internal factors (e.g. SO, OC, OIMO) that affects the organizational performance due to their implementation at strategic level, also this theoretical contribution would lead to the opening up of new ideas for the other developing economies facing the performance issues. Besides, the current study also contributes in the existing literature of the proposed constructs. Firstly, the study has gone some way towards enhancing our understanding of strategic orientation (as a unidimensional) and measuring its consideration at organizational level which leads toward the organizational performance. Secondly, this research extends our knowledge of organizational culture based on the past studies and suggesting to wider the scope of organizational culture by studying it in the banking sector and its impact on the organizational performance. Thirdly, the present study confirms previous findings on IMO and contributes additional evidence that suggests the relationship between organizational IMO and organizational performance. Finally, the current study highlights the need to focus on the

critical role of SO, OC and OIMO in the banking organizations, their adoption and implementation at organizational level and contribution to the organizational performance. Despite of theoretical contribution, the current study also provides the new insights for the bank managers, policy makers and the future researchers to know the factors that drive the performance. The scope of this study was limited in terms of conceptual study. Therefore, it is recommended to study the proposed conceptual model empirically by the future researchers in the context of Pakistan banking sector or any other developing country context.

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