STRATEGIC MANAGEMENT AND PERFORMANCE OF DEPOSIT MONEY BANKS IN NIGERIA

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Abstract

Strategic management is important for an overall goal setting and direction of an organization and lays emphasis on long range planning in order to achieve firms set goals and objectives.Despite the presence of highly professional personnel at the top management of Nigerian banks there have been cases of increased competition, poor loan delivery, distress, and unsustainable performance growth, and has resulted in silent acquisition and mergers for survival. Perhaps, this might be as a result of poor strategic planning. This study therefore, examined the impact of strategic management on banks performance using 5 selected deposit money banks in Nigeria. The study adopted the profit-maximization theory, and used secondary data which were sourced from the audited annual reports of the selected deposit money banks from 2006-2015. Data obtained was subjected to random effect panel regression analysis using the Eviews package for data analysis (Eviews, 8). The result of this study shows that: (i) overall, there is significant relationship between strategic management and banks profitability; and (ii) non-performing loan, and the number of board members are insignificant to the profitability of banks. The study therefore recommends that: (i) banks should be mindful of the number of board members and cost attributable to the board members as few but sound professionals at the board level is likely be beneficial to the profitability of banks; and (ii) the top level management of banks should be proactive in putting in place necessary policies and measures to reduce non-performing loans to enable them improve their profitability positions. If the above recommendations are well and fully implemented it is likely to positively impact on banks profitability which will possibly result to a robust and efficient financial system.

Keywords: *Strategic Management, Banks Performance, Profit Maximization Theory*

1.1 Introduction

Strategic management is an organized approach which utilizes the principles and process of management to identify the corporate objective or mission of any institution (sharabati and fuqaha, 2014). It determines the appropriate objectives

to satisfy, recognizes the existing opportunities and constraints in the environment, and device a rational practical way by which objectives can be achieved (Aremu 2003). It is argued to be part of a contemporary managerial tool encouraging organizational performance and thus, enable management to comprehend the relationship of goals, objectives, and action attainment (Alaka, Tijani and Olufemi, 2011).

A well formulated and implemented strategy is critical to firms' performance, and there is a constant need for organizations, especially financial institutions like banks to think strategically about what is going on (Sclnnellller, 1995). In response to increasing complexity and change in the financial services industry, banks have turned to strategic management. The relatively new trend towards strategic management in banks is viewed as a move designed not only to help them negotiate their environment more effectively, but also to improve their financial performance (Bird, 1991; Bettinger, 1996; and Prasad, 1999). Banks should continuously review their operational strategy in readiness to the global challenges, more so, as depositors are becoming aware of their environment and are keen to move their funds to where safety is guaranteed (Eiya, 2010).

Adegbie and fakile (2013), noted that between 1990 and 2005, most distressed commercial banks in Nigeria were liquidated resulting to loss of depositors funds, and has had adverse effect on other sectors of the economy. Despite the presence of highly professional personnel at the top management of Nigerian banks there have been cases of increased competition, poor loan delivery, distress, and unsustainable performance growth, and has resulted in silent acquisition and mergers for survivals (Newi, and Ojiagu 2015). Perhaps, this might be as a result of not keeping pace with accelerating industrial change and poor strategic planning. This study therefore examined the impact of strategic management on banks performance in Nigeria.

2.1 Review of Related Literature

Strategic management is a holistic process of identifying and evaluating strategic risks militating against a firm from the attainment of its organizational goals (Modern, 2007; and Chevalier-roigant and Trigeorgis, 2011). Strategic management is a forward-thinking exercise and all managers should be involved in it (Owolabi and Makinde, 2012). It occurs at the top level in an organization involving a long term forecast upon the major goals of an organization; it is a chosen course of action for pursuing and accomplishing objectives (Falilat, 2013).

According to sohail (2015), strategic management is important for an overall goal setting and direction of an organization.

Deposits money banks (DMBs) play a significant and crucial role which lies in between customer saving and lending process(Felicia,2011).The deposits money banks (DMBs) act as the risk insulators against all sources of risks such as financial, economic, and political risks (xuezhi and Dickson, 2011). The principal role of DMBs is to ensure that there is adequate flow of money to facilitate the movement of funds amongst economic units. This movement referred to as financial intermediation is usually from units of surplus to unit of deficits (Ufot, 2004; and Kent, 2010).

According to Upadhaya, Munir and Blount (2014), organizational outcomes can be judged from three specific areas, which are: Financial performance; Market performance; and Shareholder's return. This paper measures banks performance using Earnings per share and profit after tax, based on the submissions of Alexandru, Genu and Romanescu (2008), that Earnings per share and profit after tax are good ratios to consider when measuring the profitability of deposit money banks. Earnings per share is the amount of money each share of stock would receive if all of the profits were distributed to the outstanding shares at the end of the year, while Profit after tax (PAT) is the net profit earned by the company after deducting all expenses like interest, depreciation and tax (Murthy and Sree, 2003). The underlying theory for this research work is the profit-maximization theory of a firm. According to Hornby (1995), Theories of the Firm can be classified into five major schools of thought, namely: Classical Profit Maximization, Managerial Theories, Behavioral Theories, The Structure-Conduct-Performance Paradigm, and The Transaction Cost Approach. The Classical Profit maximization theory also known as the Neo-Classical Economic theory of the firm could be traced back to Adam Smith's Wealth of Nations(Lynch, 2000). Adam Smith argued that every business person would act in self-interest to maximize profit and by so doing increased the aggregate benefit to the society. This theory then received considerable attention from Alfred Marshall in his book Principles of Economics which published in 1890 (Hornby, 1995). Further contributions to the theory were also added by writings from Robinson (1933), Chamberlain (1933) and also Coase (1937).

This theory was based on the notion that business organization main objective is to maximize long term profit and developing sustainable competitive advantage over competitive rivals in the external market place. The industrial-organization

(I/O) perspective is the basis of this theory as it views the organization's external market positioning as the critical factor for attaining and sustaining competitive advantage, and strategicmanagement is a systematic model for assessing competition within an industry (Porter, 1981).However, relating this theory to this study profit-maximization has been seen as an end result of a good strategic planning.

Empirical evidence has shown that lot of empirical evidences are available on strategic management and banks performance. Umar (2005), explored the impact of strategic management as a tool of achieving an effective and efficient merger and acquisition at Nestle and Lever Brothers PLC. The study revealed that Strategic management played an important role in the survivals, growth and success of the company.Oyedijo (2004), observed that strategic managers must determine the relevant macro environmental factors affecting firms operations and assess the opportunities and threats they create. Singh (2005), found that strategic planning is highly correlated with superior organizational performance. Adegbie and Fakile (2013), investigated strategic planning and performance: catalyst for sustainability and stability in the Nigerian financial sector using Multivariate Analysis of Variance (MANOVA) model. Results showed that strategic planning was not properly instituted in the financial sector which creates serious problems for the nation.

Nzewi and Ojiagu (2015) researched into strategic planning and performance of commercial banks in Nigeria. Linear regression and Pearson bivariate correlation analytical techniques were used. Findings revealed that there is a weak positive relationship between the total assets and profit after tax of individuals and collective deposit banks used in the study.

Sharabati and Saed (2014), investigated the impact of strategic management on the Jordanian pharmaceutical manufacturing organization using Balanced Score-card (BSC elements).They found that there is a significant implementation of the balance scorecard variables among the firms and the growth perspective were rated highest average, followed by the internal process perspective, then financial and customer's perspective respectively. Alaka, Abass and Tijiani (2011), assessed the impact of strategic planning on the performance of insurance companies in Nigeria. Using Analysis of Variance (ANOVA) technique, their findings showed that strategic planning enhances customer patronage and reduces unethical practices in the Nigeria insurance industry. Askarany and Yazdifar

and to the best knowledge of the researcher none of these works did focused on the ten year profit profile (2006-2015) of the following banks: GTBank, First Bank, Zenith Bank, UBA and Access Bank and this study thus, fills the gap. As these banks have been successively rated in terms of their asset based and market share. This study therefore focused on strategic management and the performance of the five selected banks in Nigeria.

3.1 Methodology and Model Specification

This section focuses on the methodology used for this study. It covers matters such as model specification and estimation, source of data used and the method of data analysis.Several tests were conducted among which are the Hausman test to determine whether to adopt random effect regression or fixed effect regression, the Augmented Dickey Fuller Unit root test, Normality test, and the Durbin-watson-to account for possible successive error terms. The t-statistic was used to depict the level of significance of each of the explanatory variables, and the F-statistic for the overall goodness of fit of the entire model. The R-squared also showed the forecasting power of the explanatory variables on the explained variables, among others. The study made use of secondary data. The secondary data were sourced from the audited annual reports of the selected Deposit Money Banks in Nigeria from 2006-2015.Panel data regression analysis was used to examine the effect of strategic management on banks performance using the Econometric Views Statistical Package (Eviews-8).

This study adopted two models with modifications, which are underpinned by profit-maximization theory of the firm. The first model is:

$EPS = f(LA/TD, NPL, NOB,)$.....(1)

The Econometric form of model one is:

$EPS = B_0 + B_1 LA/TD + B_2 NPL + B_3 NOB + e$.....(2)

The second model specified is:

$PAT = f(LA/TD, NPL, NOB,)$.....(3)

The econometric form of equation 3 is represented as:

$PAT = B_0 + B_1 LA/TD + B_2 NPL + B_3 NOB + e$.....(4)

Where:

EPS= Earnings per shares (Explained Variable for model 1)

PAT= Profit after tax (Explained Variable two for model 2)

LA/TD= Ratio of loan to total deposit (Explanatory Variable)

NPL= Non-performing loan (Explanatory Variable)

NOB= No of board members (Explanatory Variable)

Bo= intercept

B_1-B_3 = coefficients
e=error term.
Note: the log of PAT and NPL were taken to give the variables equal weights

4.1 Discussion of Results

Table 4.1: Augmented Dickey Fuller Unit Root Test

VARIABLE	ADF TEST STATISTICS				
	Level	probability value			Order of integration
NOB	17.5239	0.0635	24.4025	0.0066	1(1)
NPL=LPL	8.81733	0.5495	30.0626	0.0008	1(1)
PAT=LPAT	6.30862	0.7887	16.4722	0.0086	1(1)
LA/TD*	15.3214	0.1208	17.1034	0.0072	1(1)
EPS	19.8275	0.3209	39.5515	0.0000	1(1)

Source: Author's computation, 2016

Table 4.1 shows the augmented dickey fuller test conducted on the variables used which shows that all the variables which include number of boards, non-performing loan, profit after tax, ratio of loan to total deposit and earning per shares were all significant at 1st level. The study revealed that all the variables were non-stationary at levels 1(0) since the ADF value of each variable at level is less than the MCKinnon critical value but became stationary at first difference or integrated of order one 1(1).

4.2 Hausman Test

For a panel data, Hausman is necessary to know the type of regression analysis to use for a particular model which could be random effect regression or fixed effect regression. For the purpose of this study the Hausman test result for model 1 and 2 is shown on table 4.2

Table 4.2 Hausman Test Result

	Model 1			Model 2		
Test summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	3.260662	3	0.3532	1.238185	3	0.7439

Source: Author's computation, 2016

The Hausman test result in table 4.2 shows that the equations significance level is higher than 5% for the two models which imposes the use of random effect regression analysis for the models.

4.3 Normality Test

Normality test was conducted on model one and two and the result is presented in table 4.3

	Model 1	Model 2
Jarque bera	9.428796	0.443937
Probability	0.089652	0.800941

Source: Author's computation, 2016

The normality result presented in table 4.3 shows a Jarque bera value of 9.428796 and 0.443997 for model 1 and 2 respectively and their probabilities are above 5% showing that the variables arenormally distributed.

4.4 Random Effect Regression Analysis

The study adopts random effect regression analysis to determine the effect of strategic management on bank performance.

Table 4.4: Results of Random Effect Regression for Model 1

Dependent variable : EPS		
Independent variables	Coefficient	Probability
NPL	-0.195513	0.0018
LA/TD	0.269954	0.0214
NOB	0.550603	0.0076
C	1.383878	0.3443
R-squared=0.551549		
Adjusted R-squared=0.483606		
F-statistic= 1.925164		
Prob(F-statistic)= 0.008716		
Durbin-Watson stat = 1.772621		

Source: Author's computation, 2016

From the result in table 4.4, the three variables non-performing loan, ratio of loan to total deposit and number of boards were significant at 5%. The variable non-performing loan has a negative coefficient of -0.195513 which indicates a unit increase in non-performing loan will cause earning per shares to decrease by 19%.

Also, the variable ratio of loan to total deposit (LA/TD) has a positive coefficient of 0.269954 which indicates that a unit increase in ratio of loan to total deposit will cause earning per share to increase by 27% while number of board (NOB) with positive coefficient 0.550603 indicates that a unit increase in number of board members will cause earning per share to increase by 55%. Thus, the variable ratio of loan to total deposit and number of board members has a positive significant relationship with earning per shares while non-performing loan has a negative significant effect on earning per shares.

The regression results show that the independent variables explained approximately 55percent variations in earning per shares of the selected banks in Nigeria. The Durbin Watson statistic (1.7) which is close to two indicates the absence of autocorrelation among the variables. The f-stàtistics of 1.925164 is significant at 1% level of significance, and shows that the model is a good fit.

4.5 Random Effect Regression Analysis

The study adopts random effect regression analysis to determine the effect of strategic management on bank performance.

Table 4.5 Results of Random Effect Regression for Model 2

Dependent variable : LPAT		
Independent variables	Coefficient	Probability
NPL	-0.474964	0.0050
NOB	0.041576	0.5616
LA/TD	0.216009	0.0292
C	8.626408	0.0014
R-squared=0.499046 Adjusted R-squared=0.346810 F-statistic= 3.810515 Prob(F-statistic)= 0.016050 Durbin-Watson stat = 2.125970		

Source: Author's computation, 2016

From table 4.5 above, the ratio of loan to total deposit is significant at 5%, while non-performing loan is significant at 1%. The coefficient of non-performing loan which is negative with value of -0.474964 indicate that for a unit increase in non-performing loan will cause profit after tax to decrease by 47%. Also, the coefficient of the ratio of loan to total deposit which is 0.216009 implies that for every 1unit rise in ratio of loan to total deposit will cause profit after tax to

increase by 21%. On the diagnostic aspect of the model, the value of adjusted R^2 explains that 50% of the variation in the dependent variable is explained by the independent variables of the model. The value of F statistics is 3.810515 with significance level of 0.016 (significant at 5% level). Therefore, the model is considered fit. Affirmatively, the value Durbin Watson (DW) is 2.12 is closer to 2 and is thus, an evidence of no serial correlation.

5.1 Conclusions and Recommendations

The study concludes that strategic management impacts significantly on banks performance, although the Non-performing loans and the number of board members of banks at one time or the other showed insignificant contributions to the profitability of banks. Perhaps, this might be due to other factors such as board member emoluments and other attributable costs cum allowances. On the other hand, bad loans are off course expected to be provided for from the profits and thus expected to reduce profits of banks. This study therefore recommends that: (i) banks should be mindful of the number of board members and cost attributable to the board members as few but sound professionals at the board level is likely be beneficial to the profitability of banks; and (ii) the top level management of banks should be proactive in putting in place necessary policies and measures to reduce non-performing loans to enable them improve their profitability positions. If the above recommendations are well and fully implemented it is likely to positively impact on banks profitabilitywhich will possibly result to a robust and efficient financial system.

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