

Strategic Literature Review on contingency factors and bank performance in china

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Abstract: The aim of the study was to review the available literature on contingency factors that can influence the performance of commercial banks of china. For this purpose, a through literature has been investigated in a manner that a report could be generated and decisions could be made on the common trends. Most of the articles for this study were taken from the Scopus databases. The present findings recommend that commercial banks have to focus more on aspects such as business strategy if they aim to enhance their performance measures that would consequently improve their performance. For decision making in the context of organizational structure, banks must possess authority in their branches so that new and flexible approaches to non-financial measures could be applied. A positive and significant relationship of business strategy with the organizational performance is the major finding of the present study. With reference to organizational structure and organizational performance, the findings indicated a positive effect of organizational structure on the organizational performance.

A negative and insignificant relationship found between competition and organizational performance is indicated by the results.

Key Words: Institutional factors, coercive pressure, Normative Pressure, Balance Score card.

I. Introduction of the study

The organizational performance has been considered by many scholars such as Richard, Devinney, Yip & Johnson, (2009), as an important construct to reach to the goals of an organization. Dess & Robinson, (2006), reported that organizational performance as an important variable has been employed by many scholars when investigating different issues in the context of performance. On the whole, the performance of banks increases with a continuous improvement in functions and monitoring of financial condition of the bank which according to Levine, 2005; Paradi & Zhu, (2012), significantly contributes towards the development and economic growth of the country. This weak banking performance is the reason as per Levine, (2005), responsible for slower economic growth of developing countries. Although, organizational performance is affected by various factors but many scholars such as Gosselin, 2005; Henri, 2006a; Hoque, 2004; Lee & Yang, (2011), contingency factors are influential factors that have great impact on organizational performances. A number of authors like; Chong & Chong, (1997), Lee & Yang, (2011), Lorenzo, (2008), described that contingency theory contains some highly preferred factors that affect organizational performance including, organizational structure, competition and business strategy.

Chong & Chong, (1997), categorized business strategy as an important top most variable in contingency researches. In this context some previous studies e.g., Miles, Snow, Meyer & Coleman, (1978), suggested that a specific-firm strategy regarding management style and organizational structure is essential to improve business performance. Similarly Govindarajan & Gupta, (1985), also considered business strategy an important factor that influences the organizational performance as well as performance measures. Business provides the grounds for the connection between organizational performance and performance measures to be developed. In the same line Venkatraman *et al.*, (1993), suggested that if managerial practices and strategic priorities of firms are well aligned, the higher performance would be achieved.

Organizational structure is the second vital factor that has a good deal of impact on practices of accounting management because as found by Lorenzo, (2008), because it affects firm performance significantly positive. In an organization,

systems according to Chenhall, (2003), many different aspects such as control systems, information flows, and efficiency of work are influenced by organizational structure. Despite its importance, the literature of management accounting indicates that less attention has been paid to the influence of organizational structure on organizational performance (Lee & Yang, 2011). The third strong factor to affect the performance is competition because Lee & Yang, (2011), suggested that because of competition, the banks will improve performance supporting the idea of Neely, (2005). Alkizza, (2005), found a significant impact of competition on accounting management practices, in addition to this, Agha *et al.*, (2011) also discovered significant impact of competition on organizational performance.

Many past studies revealed a direct link between contingency factors and organizational performance. However Hoque & James, 2000; Lee & Yang, 2011; Verbeeten & Boons, (2009), found and revealed an indirect link. The use of multiple performance measures in the banking sector was emphasized and suggested by many studies such as Kaplan & Norton, 2001; Lorenzo, (2008), besides other fields of service. Bunker, Lee, Potter & Srinivasan, 2000; Van der Stede *et al.*, (2006), were the pioneers to provide some empirical evidence of the positive affect of performance measures on the financial performance of organisations. Hussain & Hoque, 2002; Hoque, 2004; Van der Stede *et al.*, 2006 Lee & Yang, (2011), reported the impact of contingency factors on application of performance measures and Hussain & Hoque, 2002; Munir, Perera & Baird, 2011; Gimzauskiene & Kloviene, (2011), reported the same impact of institutional factors. Thus in all this perspective, present research efforts to cover the gaps found in pool of knowledge by attempting to investigate the performance measures as a mediator influencing the link between institutional factors and organizational performance.

In view of previous literature and in response to recommendations of prior studies, for example, Hussain and Gunasekaran (2002), Kaplan and Norton (2001), and Lorenzo (2008), this study attempts to examine the mediating effects of "use of performance measures on the relationship between the contingency and institutional factors". The organizational performance as one of the major objectives of this study is to further explain the relationship between contingency and institutional factors, and organizational performance. As per practical issues and theoretical gaps discussed above, the investigation of the relationships between organizational performance and various contingency factors such as business strategy, competition, and organizational structure is the main focus of the present study. Additionally the mediating effects of performance measures on the relationship between contingency and institutional factors, and organizational performance would also be examined specifically in the context of commercial banks in China.

II. Literature review

Business Strategy: Chong & Chong, (1997), found business strategy as one of the important variables in contingency studies. In the context of organisations, Gosselin, (2005), also suggested that the contextual factors such as strategy and organizational structure must be aligned with the performance measures. Because the dynamic niche of strategy involves managers continuous assessment of the way combinations of environmental conditions by the managers besides assessing structures and technologies that could possibly bring improvement in performance. in addition to some very old studies such as Govindarajan & Gupta, (1985) and A bernethy & Guthrie, (1994), a significant relationship has been found between PMS and organization's strategy by some scholars in the recent past like Hoque, 2004; Gosselin, 2005; Van der Stede *et al.*, (2006).

Organizational Structure: No doubt organizational structure is an important characteristic in an organization that has a super impact on its performance as found by Chia, (1995). The efficiency, morale, and effectiveness come under performance that are most possibly be affected by organizational structure. Therefore scholars like Waterhouse & Tiessen, 1978; Lorenzo, (2008), considered organizational structure as one among many important factors that influence management accounting practices. Moreover, an important link between organizational structure and performance measurement has also been provided by many studies. Chapman, (1997) reported that Contingency theory specifically suggests that the effectiveness of organizational design is dependent on the compatibility between organisation design and contextual variables on the bases of contingency theory. However, Lee & Yang, (2011), contributed that the level up to which PMS and organisation structure affect organizational performance, is not completely understood.

Competition: Scherer & Ross, (1990), stated competition among organisations as an important factor to evaluate organizational performance. Whereas, Lee & Yang, (2011), described that both performance and organizational design can be influenced by a powerful factor of competition. In favour of this argument Bunker *et al.*, (2000), added that appeal of non-financial performance measures increases with increasing competition because both serve as major indicators of performance. Agha *et al.*, 2011; Majeed, (2011), described competition as one potential determinant of the use of multiple

performance measures a significantly affecting organizational performance. The fact that competition and performance measures have a significant relationship is also supported by Fakhri *et al.*, 2009; Lee & Yang, (2011).

III. Relationship among study variables

Relationship between Performance Measures and Business Strategy: Several studies on PMS like Ittner *et al.*, 2003; Kaplan & Norton, (2001), have emphasized the relationship between performance measures and business strategy. A significant and positive link between and management's use of non-financial measures performance and strategy was also found by Hoque, (2004). Likewise a positive association between performance measures including both financial and non-financial aspects and business strategy was reported by Stede *et al.* (2006). Many studies also found significant relations between PMS and the organisation's strategy, (Abernethy & Guthrie, 1994; Govindarajan & Gupta, 1985).

Relationship between Performance Measures and Organizational Structure: Among factors affecting management accounting practices, according to Laitinen, 2006; Lorenzo, 2008), organizational structure is of the foremost importance and the change in organizational structure and Fakhri *et al.*, (2009), found that organizational structure has an indirect effect on the management accounting practices as well. The contingency-based research conducted by Gosselin, (1997) revealed the effect of formal organizational structure the design of MCS. In 1978 Waterhouse & Tiessen reported that PMS is an integral part in an organization that enhances control by its interaction with the organizational structure. Gosselin, (2005), found a significant relationship of performance measures with organizational structure and a significant association between PMS and organizational structure was described by Lee and Yang, (2011) Farrukh, Meng, Sajid, & Shahzad, (2020); Farrukh, Ting, *et al.*, (2018). Some significant relationships have also been found between the type of measure and the factors like organizational structure and strategy. Besides, Fakhri *et al.*, (2009), also reported that the use of performance measures (financial and non-financial) were positively associated with organizational structure.

Relationship between Performance Measures and Competition: One powerful factor that determines the change in management accounting practices, such as PMS, is competition suggeste Fakhri *et al.*, (2009). Because of competition between service organizations, awareness of the performance measures increases (Hussain and Hoque, 2002). The relationship between competition and use of performance measures was found to be significant by Fakhri *et al.*, 2009; Lee & Yang, (2011) and multiple performance measures are emphasized to be adopted in the firms that face extensive competition

Business Strategy and Organizational Performance: To improve firm performance, a management style is required that is related to a specific-firm strategy as suggested by organizational literature e.g., Miles & Snow, 1994. Likewise firms will achieve higher performance if they align managerial practices to the strategic priorities of the organisation (Venkatraman *et al.*, 1993; Shahzad & Bhatti, 2008; Shahzad, I. A., Raju, V., *et al.*, 2018; Shahzad, Farrukh, Yasmin, 2020). In this regard, Hoque (2004) suggested that strategy is an important antecedent of organizational performance. While, Van der Stede *et al.* (2006), found a positive effect of strategy on organizational performance.

Organizational Performance and Organizational Structure: There are many mechanisms of controlling conflicts and according to Mayers & Smith Jr, (1981), organizational structure is one of them thus imposing a significant impact on the financial behavior of firms. On the other hand While Lai & Limpaphayom, (2003), through his findings proved that organizational structure has no impact on performance or real activity choice. But Lai & Limpaphayom, 2003; Lee & Yang, (2011), supported the argument that organizational performance is positively influenced by organizational structure. The managers with a good deal of information and authority to make decisions in organizations, contribute greatly towards overall performance in organizations that are organic rather than mechanistic in structures (Lee & Yang, 2011). Therefore in this reard Chenhall & Morris, (1986), concluded that organizational structure is associated in terms of aggregated and integrated information with organizational performance.

Organizational Performance and the Competition: Majeed, (2011), found that competitive advantage of a company is well associated with its performance. The banks performance, according to Neely, (2005), is considered best specially in the presence of competition, such as quality of services less prices. In addition to this Mia and Winata, (2014), also found a positive relationship between competition and financial performance. it is obvious from the previous discussion that organizational performance is positively influenced by the competition. Zhu and Sarkis, (2007), also supported this by their findings of a significant relationship between performance and competition.

Organizational Performance and Performance Measures: The positive relationship between performance and the design of PMS in terms of increased reliance on non-financial information is largely supported by different studies as Scott & Tiessen, 1999; Baines; Davis & Cosenza, 2000; Said, Elnaby & Wier, 2003 & Langfield-Smith, 2003), revealed by the literature. A positive relation between firm performance and increased use of different types of PM was also shown by Scott and Tiessen (1999), and Hoque and James, (2000). In literature review several studies such as Anderson & Lanen, 1999; Al-Enizi *et al.*, 2006; Fakhri *et al.*, (2009), provided some empirical evidences regarding the positive impact of non-financial performance measures on the long-term financial performance of the organizations and Van der Stede *et al.*, 2006), stated that performance of the company increases due to performance measures. In the words of Banker *et al.*, (2000) and Hoque & James, (2000), the firm performance can superiorly be increased by using financial and non-financial measures together. Anderson *et al.*, (1994), provided evidence that customer satisfaction measures were significantly and positively related with financial performance. Several studies such as Anderson *et al.*, 1994; Banker *et al.*, 2000; Hoque, 2004; Van der Stede *et al.*, 2006; Verbeeten & Boons, 2009; Lee & Yang, (2011) also provided evidences regarding existence of a positive and significant relationship between organizational performance and performance measures.

Contingency Factors, Institutional Factors, Performance Measures, Organizational Performance and their Relationship with each other: The strategy and measures of performance are essential whether to evaluate performance, or enhance organizational performance, stated Ittner *et al.*, 1997; Simons, (1995). Apparently the association between business strategy and organizational performance looks significantly indirect. However, Van der Stede, Chow, and Lin (2006) found a between the strategy and performance measures have positive relationship and together they influence firm performance considerably. Hoque, (2004), supported this by his findings of a significant and positive link between strategy and performance through high use of non-financial measures for performance evaluation by the managers.

Measurement history of study variables

Association of Contingency Factors with the application of Performance Measures: The contingency theory and review of literature provides ground for the association between performance measures and contingency variables. The focus of current study is on the investigation of the association between different contingency variables such as business strategy, organizational structure, and competition with the performance measures in the context of commercial banks.

Performance Measures and Business Strategy: The findings of the study revealed a positive effect of business strategy on the performance measures presented and from this hypothesis of the study gets supported. Moreover results showed that business strategy has a positive influence over various aspects of the performance measures that included customer satisfaction, internal business, innovation & learning and financial measures. The contingency theory and the findings of this study are in the same line emphasizing the dependency of the optimum design of the performance measure on the strategy of the organisation as found and presented by Langfield, 1997 & Chenhall, (2003). Besides this, findings are consistent with many other studies (Van der Stede, 2006); Hoque, 2004), and Abernethy and Guthrie, 1994).moreover, the findings are also consistent with the study of Fakhri, (2009) in the context of developing countries.

Organizational Structure and Performance Measures: A negative and insignificant relationship was found between organizational structure and performance measures, presented. The presented results indicate that this result does not support the hypothesis of the study. The results indicate a significant relationship of organizational structure with two components of the performance measures that is customer satisfaction, and innovation & learning while negative relationship is found with rest of three components of the performance measures such as financial, internal business, and innovation and learning). Thus this result appears inconsistent with the contingency theory that declares a fit between contextual factors and the MCS design. Moreover this result is also inconsistent with some previous studies such as Lee & Yang, (2011).

Association between Performance Measures and Competition: The results presented showed that enough evidence could not found to support a positive relationship between performance measures and competition thus does not support the hypothesis of the study. The competition is found to have an insignificant negative relationship with various aspects of the performance measures. As, contingency theory suggests competition as determinant of the non-financial measures, (Hoque, 2004), thus this result is inconsistent with it as well as with the previous studies (Hoque *et al.*, 2001; Lee & Yang, 2011).

Association of Contingency Factors with Organizational Performance: The contingency theory and previous studies provide a sound footing for the association present contingency variables and organizational performance. The aim of current study is to investigate the association or link of contingency variables such as business strategy, organizational structure, and competition with the organizational performance in the perspective of commercial banks in a developing country.

Association of Business Strategy with Organizational Performance: A positive and significant relationship of business strategy with the organizational performance is the major finding of the present study showed which also supports the hypothesis of the study. Long before Miles and Snows, (1994) suggested that the strategy together with the management style of organization will enhance business performance. In the same lines Venkatraman *et al.* (1993), also contributed that increases if the managerial practices along with a strategy will bring improvement in performance of organizations. In addition, Van der Stede *et al.* (2006), also presented the positive relationship of strategy with organizational performance through his findings. The emphasis of contingency theory is that due to prospector strategy firms employ new techniques to enhance corporate performance argued Abrahamson, (1996) and the findings are inconsistent with the theory.

Relationship of Organizational Structure with Organizational Performance: With reference to organizational structure and organizational performance, the findins indicated a positive effect of organizational structure on the organizational performance. The findings are not only consistent with other studies such as Lai, 2003; Lee & Yang, 2011 and Hao, (2012), but also in line with contingency theory proving that the for an organisation to be affective rely on the organizational design.

Relationship of Competition and Organizational Performance: A negative and insignificant relationship found between competition and organizational performance is indicated by the results. Though result is non-supportive towards the hypothesis of the study but is consistent with the findings of Murayama and Elliot (2012), as well as with Uddin and Suzuki (2014). The less competition among banks can probably be the reason for this insignificant and negative result. It can be perceived that as state owns all the major banks that prohibits the general competition for credit expansion and service development (Bank of Commerce & Development, 2013). According to Hussain and Hoque (2002) in the financial industry if the competition is significant, the banks would consider the improvement in their service. Otherwise the banks have neglected to improve their quality, timeliness, and reliability to satisfy their customers. This would ultimately bring enhancement in bank performance. Competition among the banks should be encouraged as this would eventually result in improvement of satisfaction of bank customers and increased performances of the banks.

Use of Performance Measures and Organizational Performance in Commercial Banks: The study found this above mentioned relationship positive and significant as indicated. Data analysis revealed that organizational performance is significantly influenced by the customer satisfaction as presented. As Anderson *et al.*, (1994), stated customer satisfaction significantly associated with financial performance thus present result is consistent with the argument that the increased pressure by academics and consultants for the measurement of the performance evaluation is on the improvement of organizational performance as described by Hoque, (2004); Farrukh *et al.*, (2019); Farrukh, Alzubi, *et al.*, (2018); Farrukh, Lee, & Shahzad, (2019). Moreover performance measures has a positive influence on the financial performance of the organizations in respect of long-term profitability have also been found and reported by several other scholars such as Bunker *et al.*, 2000; Van der Stede *et al.*,(2006). The findings of this study are also in line with previous studies conducted by Baines & Langfield-Smith, 2003; Davila, 2000; Said, (2003).

Theoretical Implications

The existing theoretical knowledge will be benefitted by results of the current study through the support of contingency theory in explaining the relationship between organizational performance and business strategy and in the perspectives of performance measures. According to Chenhall, 2003; Langfield-Smith, 1997; Luft & Shields, 2003), the contingency theory suggests that the fit between business strategy and the MCS design is very important to achieve better organizational performance. Contrary to this the results do not support contingency theory in explaining the relationship among organizational structure, competition, and organizational performance through the performance measures. The reason behind this is the centralized decision making and the weak competition among banks. The competition also serves as a source of the performance trigger in developing countries is the debatable finding provided

by these results. Findings support the institutional theory through the performance measures in explaining the relationship between coercive pressure and organizational performance.

Practical Implications

Regarding practical implications several issues of bank performance and factors affecting them through contingency factors like business strategy, organizational structure, and competition are figured out by the current study. For a mediator between the relationship of contingency and organizational performance, performance measure is used as mediating variable in the study. It is expected that these findings will eventually help the bank managers to enhance performance of banks.

The present findings recommend that commercial banks have to focus more on aspects such as business strategy if they aim to enhance their performance measures that would consequently improve their performance. For decision making in the context of organizational structure, banks must possess authority in their branches so that new and flexible approaches to non-financial measures could be applied. To increase their capability to satisfy customers, banks should compete with each other. In this way performance measures will come in more focus and consequently enhanced bank performance. Chinese central bank should lift restrictions on the activities of banks and rather stimulate competition among banks and should open greater investment opportunities to international banks in the banking sector of China. Moreover educational level could be raised by organized workshops and conferences so that assistance can be provided to the employees to increase the use of performance measures, resulting eventually in better bank performance, and the overall banking sector.

IV. Limitations of the Study

Like any other good contributing study, present study also has some limitations that may cause a hindrance in its generalization or affect its validity. The following section contains these limitations which are as follows:

Firstly, the impact of some contingency factors (business strategy, organizational structure, and competition) was investigated on organizational performance, using performance measures both financial and non-financial as a mediating source.

Secondly, only 20 items in the questionnaire were used for measuring performance measures. Many more other measures were also studied in past studies. Only the dimensions of the BSC were used in the current study and that could be a limiting factor.

Thirdly, only the branch managers were the respondent of the study, and answered the questionnaire and as such, answers concerning their managerial skills and performance compared with other banks could be bias. Like, instead of reflecting their original performance, they may have presented their skills and performance in an extra ordinarily better way. In generalization of study findings, precautions must be taken and therefore the results could only generalize with similar environments in the same context and at same level of development.

V. Recommendations for Future Studies

To eliminate the limitations of the study, to conduct more investigations in future studies could be more advantageous. In this section some recommendations are also suggested for future researchers;

Firstly, the impact of some contingency factors on the organizational performance was investigated by this study it is recommended that to know the impact of other contingency factors on banking performance such as culture, technology, and mimetic pressures would be important for greater future insight.

Secondly, the survey method was used in the current study to collect data and branch managers were the respondents of the study. Increased sample size and the use of mixed method is recommended for future studies to induct in the methodology of the study that is survey and interviews to obtain stronger results.

Thirdly and more importantly, the answers to the questionnaires may have resulted in mono-response bias because of a single category of respondents that is branch managers. Therefore, it is recommended for future studies to focus on increased categories of respondents and chief executive officers and managers of financial departments could be included so that stronger results could be obtained. In addition, longitudinal methods could be employed for performance of organizations, which might provide results that are more accurate.

Fourthly, comparative studies could be opted in future to compare the results of topical extracted from commercial banks as well as specialized banks and even the financial institutions.

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Lastly, the factors affecting the performance and its consequences in china were focused in this study. It would be of great interest if the study is reproduced in other cultures or countries, and the results extracted in China and such countries are to be compared in future.

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