The Impact of business strategy on Corporate Performance: Empirical Study in Jordanian Private Banks

Prof. Dr. Tayfun Turgay – Mob. 0090 5338649495- E. mail tayfun.turgay@gmail.com

Assoc. Prof. Dr. Serdar Saydam – Mob. 0090 5338622629- E. mail serdarsaydam@hotmail.con

Adnan M. Rawashdeh* – Mob. 00692 796860622 – E mail adnanrawa@yahoo.com

Girne American University – Cyprus

The study evaluates the impact of business strategy on corporate performance in Jordanian private banks. A total of 193 employees from the human resource departments of Jordanian private banks had responded to adapted questionnaire that measured two independent variables (cost reduction and differentiation) and corporate performance. The results reflected a positive and statistically significant relationship of (cost reduction and differentiation) with corporate performance. This study recommends banks management to keep engaging in correcting their business strategy to manage challenges in this changing business environment in order to create and sustain superior bank performance

Keywords: Business strategy, corporate performance, Jordanian private banks.

Introduction

It's absolutely clear that changing in business environment is linked to different potential challenges such as changing customer needs and expectations, changing investor demands, demographic changes, political and cultural changes, economical crises, information technology, globalization, and electronic commerce. These challenges emerged as a significant concern for most firms, and to compete in this changing environment they must constantly enhance their performance by improving quality of products and services, lunching new innovative products and services to the market, differentiating products, reducing products cost, and increasing products speed to markets. Also, adopting distinguished strategy shall enable them to compete effectively and outperform competitors in this uncertainty environment (Wheelen &Hunger, 2008).

Now, strategy is known as a future focused action plane that involved with a comprehensive competitive framework that shows how organizational polices and practices are associated ,framed and executed to effectively assign structure and manage the corporate scarce resources to achieve goals and create organization profitability .organization formulate a business strategy in order to draw a general approach that direct it to compete against other organizations in a specific marketplace

(Arthur, 1992) . The major objective of business strategy is to effectively integrate the firm with its internal environment as well as its external environment. Since, the effective performance of the organization rely on the extent to which the firm business strategy is coupled with its internal capabilities, it would be recognized that the corporate strategy would be a central determinant of corporate human resource strategy. Organizations can create a good business strategy through investigating and understanding their internal strengths and weaknesses. This helps them in assessing their internal resources relative to competitors in such industry that may lead to higher performance level and in turn a great competitive advantage (Raduan et al, 2009). Many contributors such as Cheng (2003) have investigated the relationship between business strategy and organizational performance and they found a positive association between these variables.

Jordanian banking sector is considered as an important component of the economy in some developing countries like Jordan. It's identified as backbone of Jordan economy as the service sector contributes to more than 80% of Jordanian gross demotic product. Banks management comes across several challenges as a result of global economy crisis which may affect banks productivity and performance. Therefore they are continuously engaged in correcting their business strategy and formulating and implementing policies to assist banking sector so that it can play its role in the economic development of Jordan. The objective of this study is to investigate the relationship between business strategy and corporate performance in Jordanian private banks.

Literature Review

Strategy concept derived from the Greek word 'strategos ' a general which comes from roots meaning army and lead (Legge, 1995). It can be described as a set of actions and commitments that are designed, integrated, and coordinated to utilize the organizational assets in order to achieve competitive advantage. However, business strategy is known as a pool of decisions about the direction of the organization (Liao, 2005). It's designed to add value to products and achieve superior organizational performance by utilizing core competencies in a specific market (Dess et al ,1995). Porter (1985) proposed two types of business strategy cost reduction and differentiation strategy that should provide firms with competitive advantage. Organization formulates its competitive business strategy to identify the general approach on which it intends to compete against other organizations in a determined marketplace. Business strategy signifies the differentiated feature of strategic investment and tactical allocation of organization's scarce assets in order to compete in a dynamic market and diver's environments (Arthur, 1992). Also, it gives organizations how they will distinguish themselves from other rivals by determining a pool of adding value activities and setting competitive priorities with the purpose of achieving organizational goals and objectives (Wheelen &Hunger, 2008). In addition, it leads the firms for how they will manage and control their internal and external environment. In this sense, it can be defined from internal environment view as a collection of organizational and functional features and resources that achieved superior organizational performance in an industry (Duray, 1997). Leffakis(2009) argued that business strategy can motivate the internal functional departments to make decisions and coordinate resource investments in order to improve customer satisfaction. Also it can direct each functional department to successful allocation of organizational resource investment that should provide support between each of them. This is achieved by defining which customers the firm decided to serve, which goods or services it will produce, and by coordinating the organization overall strategic objectives with its scarce functional resources and competencies . In sum, the implementation of competitive business strategy requires investments, coordination, allocating and managing of scarce resources, and complying with firm policies to guide and control them.

Creating and sustaining positive organizational performance require best use of firm available resources and competencies. It has been introduced in different views and can be described in various aspects rather than an individual financial measure which is hardly assessed (Abdul, 2007). Corporate performance has been showed aspects that include measures of employee, operational and financial performance. Subjective measures were used and developed from those performance measures (Wall et al, 2004). (Huselid et al, 1997) identified corporate performance as employee, operational and financial performance. Also, Wendy (2008) defined corporate performance in three major areas employee, operational and financial performance. The following scholars found a positive relationship between corporate performance and business strategy. Lee et al (2010) reports a positive influence of business strategy on corporate performance. Cheng (2003) stressed that there is a positive relationship between business strategy and organizational performance. Chiang (2004) concluded that there is a positive influence of business strategy (low cost, and differentiation) on corporate performance. Lee (2000) also found that business strategy (low cost, and differentiation) have a positive effect on internal structure of an organization and organizational performance. Irene & Liu (2009) found a significant influence of organizational culture, business strategy and human resource systems on organizational performance. Feng et al (2010) found a positive association of human resource management practices and business strategies (cost reduction, differentiation) with firm performance. Chow (2006) stressed that human resource management practices and business strategy have a positive association with organizational performance. Martell et al. (1996) concluded that there is a positive association of human resource practices and business strategy with organizational performance.

From the above discussion this quantitative study adopted cost reduction and differentiation strategies that are likely positively associated with corporate performance (employee, financial, and operational).

Research Hypotheses

Based on literature review the following hypotheses are developed

H1. There is a positive relationship between cost reduction strategy and corporate performance

H2. There is a positive relationship between differentiation strategy and corporate performance

Research methodology

Data collection and sampling

A questionnaire survey has been used to collect primary data from the research sample. The questionnaire has been divided into three segments: Segment (A) has captured information on respondents, Segment (B) has captured information on business strategy, and Segment (C) has tackled questions on corporate performance. In answering the questionnaire likert scale was used ranging from 1(strongly disagree) to 5 (strongly agree). The items used in the study were adapted from different studies (Feng et al, 2010; Cheng, 2003; Wendy, 2008). The instrument was pilot tested using 35 employees from population. The results of pilot study reflected appropriate adequacy (Wu, 2005).The Cronbach's alpha of variables ranged from 0.76 to 0.96 respectively. 204 questionnaires were dispatched to Jordanian private banks, a total of 196 filled questionnaires were received, and after investigation a total of three questionnaires were found unfit for analyzation ,so a total of 193 questionnaires has been used in analyzation which represent 94 % response rate.

Results and discussion

Descriptive Statistics

The results of descriptive statistics indicated general agreement of the respondents to business strategy. The mean values ranged from highest 4.02 to lowest 3.89. The results for cost reduction indicated highest conformity (Mean = 4.02, Standard Deviation = .74); differentiation (Mean = 3.89, Standard Deviation = .61); and corporate performance (Mean = 4.02, Standard Deviation = 0.60) respectively. The mean score and standard deviation reflected conformity of respondents' perception about these strategies.

Hypotheses testing

Table (1) indicates the results of multiple linear regression analysis to test the relationship of business strategy (cost reduction and differentiation) with corporate performance in Jordanian private banks. The correlation coefficients was (0.920) suggest a high positive relationship with corporate performance. The f value (9.95) indicate that there is a relationship with corporate performance as the value of the significance level (0.000) related to f value was less than 0.05 suggesting the presence of the relationship. The value of R^2 shows how much the independent variable to explain the variance of the dependent variable (corporate performance), upon this idea business strategy explains 93 % of the variance of corporate performance. This means that banks management was aware of the challenges brought by economic crisis and they had adopted the effective business strategy in order to avoid threats posed by that crisis. Also, they were engaged in continuous corrective actions of their business strategy which positively enhance their performance. Thus, this result is in harmony with (Lee et al, 2010; Cheng, 2003; Irene & Liu 2009) results. In this light, table (1) shows the following results for cost reduction and differentiation individually. For cost reduction strategy, the T value (3.30) reflects the importance of this element as the value was (0.001) less than (0.05) indicating the positive relationship with corporate performance. Thus the test of hypothesis confirms the positive association of cost reduction with corporate performance and this result is concurring with (Chiang, 2004; Lee, 2000; Feng et al, 2010)) results. This positive significant relationship means that banks management has adopted follow the leader strategy as most of organizations worldwide have implemented cost reduction strategy to protect their businesses from threats along with global economic crisis. Also, banks management has lunched low cost services in order to retain and attract customers which result in enhancing bank performance. For differentiation strategy, the T value (2.22) reflects the importance of this element as the value was (0.027) less than 0.05 indicating the positive relationship with corporate performance. Thus the test of hypothesis confirms the positive relationship of differentiation and corporate performance, and this result concur with (Wendy, 2008; Chiang, 2004; Lee, 2000) results. This positive relationship shows that banks management was engaged in lunching new innovative services in order to attract customers and entering new markets which definitely affect bank performance positively.

Conclusion

The contribution of business strategy to the overall achievement of corporate performance in changing business environment is increasingly acknowledged. This study has evaluated the influence of business strategy on corporate performance in Jordanian private banks. Prior studies concluded a positive influence of business strategy on corporate performance and my study empirically asserted the findings of those studies. In a nutshell; this study has been conducted in Jordanian private banks and found a positive association between business strategy and corporate performance. Banks management should continue to engage in correcting their business strategy to manage challenges in this changing business environment in order to create and sustain superior bank performance. In addition, it would be valuable to ensure that lunching new innovative services shall attract and retain customers.

REFERENCIES

Abdul R (2007). HRM Sophistication and SME Performance: A Case of Ready Made Garment Manufactures and Exporters in Lahore. Pakistan. Unpublished Doctor Thesis. And Twente University. Pakistan.

Arthur J. (1992). The link Between Business Strategy and Industrial Relations Systems in American Steel Mills. Indus. & Lab. Rel. Rev. 45: 488-506.

Cheng C. (2003). Research of Relation between Business Strategy and Business Performance for R Recreation Resorts in Kenting Area. Taiwan. Unpublished Master's thesis. Chang Jung University. Taiwan.

Chiang C (2004).The Impacts of Business Strategy and Compensation Strategy on Organizational Performance. Unpublished Master's thesis. Soochow University. Taiwan.

Chow H (2006). The Linkage of HRM and Knowledge-related Performance in China's Technology-intensive Industries Hong Kong: The Chinese University of Hong Kong.

Dess G, Gupta A, Hennart J & Hill C (1995). Conducting and Integrating Strategy Research at The International Corporate. and Business Levels: Issues and Directions. Manage. J. 21: 357–393.

Duray R (1997).Mass Customization Configurations: an Empirical Investigation of Manufacturing Practices of Customization. Unpublished PhD Thesis. The Ohio State University. Columbus.

Feng H, Tzai Z & Wann Y (2010) The Relationship Between Human Resource Management Practices. Business Strategy and Firm Performance: Evidence From Steel Industry in Taiwan, Int. J. of H R M. 21 (9) :1351-1372

Huselid M & Becker B (1997). The Impact of High Performance Work Systems. Implementation Effectiveness. and Alignment with Strategy on Shareholder Wealth. Acad. of Manage. Proceedings :144-149

Irene H & Liu S (2009). The effect of Aligning Organizational Culture and Business Strategy With HR Systems on Firm Performance in Chinese Enterprises. Int. J. of HRM.20 (11): 2292-2310

Lee F, Lee T & Wua W (2010). The Relationship Between Human Resource Management Practices. Business strategy and Firm Performance: Evidence From Steel Industry in Taiwan, The Int. J. of HRM. 21 (9) : 1351–1372

Lee H (2000). An Empirical Study of the Relationship among Business Type. Strategy and Performance of Chinese Medicine Industry of Taiwan. Unpublished Master's thesis. National Defense Management University. Taiwan.

Leffakis Z (2009).The Effects of High Performance Work Systems on Operational Performance in Different Manufacturing Environments : Improving the Fit of HRM Practices in Mass Customization. Unpublished PhD Dissertation. Toledo University.

Legge K (1995). Human Resource Management. Rhetoric's and Realities. Macmillan. London

Liao Y (2005). Business Strategy and Performance: The Role of Human Resource Management Control. Person. Rev. J. 34(3) : 294–309.

Martell K, Gupta A, & Carroll S (1996). Human Resource Management Practices. Business Strategies. and Firm Performance: A Test of Strategy Implementation Theory. Irish Bus. and Admin. Res. 17 (1) : 18–35.

Raduan C, Gegak U, Haslinda A & Alimin I (2009). A Conceptual Framework of the Relationship between Organizational Resources. Capabilities. Systems. Competitive Advantage and Performance. Res. J. of Int. Stud. 12 : 45- 58

Porter M (1985). Competitive Advantage, New York: Free Press.

Wall T, Michie J, Patterson M, Wood S, Sheehan M & Clegg C (2004). On The Validity of Subjective Measures of Company Performance. Person. Psychol. J. 57 (1) : 95-118

Wendy R (2008) Organizational Culture, HRM and Firm Performance : Examining Relationships Using the Competing Values Framework in Call Centers. Unpublished Doctorate Dissertation. Saint Mary's University. Halifax. Nova Scotia. Canada

Wheleen T & Hunger D (2008). Strategic Management & Business Policy.11th ed. New Jersey Pearson Education. Inc. Upper Saddle River.

Table (1)

Multiple linear regression analysis to test the relationship between business strategy and corporate performance in Jordanian private banks

variable	r	R2	f	Sig (f)	β	t	Sig(t)	α	decision
Cost reduction	0.305	0.093	9.95	0.000	0.164	3.30	0.001*	.920	accepted
Differentiation					0.118	2.22	0.027*		