Strategic Management Practices and Performance of Nepalese Commercial Banks

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Abstract

The adoption of good strategic management strategies is crucial for banks to attain long-term success and maintain their competitiveness. Examining strategic management practices in Nepalese commercial banks is aim of this study. Four independent variables i.e., environmental scanning, strategy formulation, strategy execution, and strategy assessment control, as well as one dependent variable i.e., performance of Nepalese commercial banks, were primary focus of this study. This study is quantitative in nature. For the study, a causal comparative research design was chosen. To gather primary data on the factors and investigate their relationship, a survey was conducted. Simple random sampling was used to distribute self-administered questionnaires for this investigation. Data was collected from 216 respondents from among 10 commercial banks of Nepal. In the analytical section, both descriptive and inferential analyses were conducted. Data analysis was made using SPSS. With an R^2 value of 0.685, the inferential analysis demonstrates that every aspect of strategic management techniques under investigation has a favourable and statistically significant effect on the operations of Nepal's commercial banks. Among the four dimensions of strategic management practices strategy formulation have the most influential role on performance of commercial banks in Nepal in financial and non-financial terms. Managers of Nepalese commercial banks should take steps to continuously apply the approaches of strategic management for long-term competitive advantage.

Keywords

Strategy formulation, environmental scanning, strategy implementation, strategy evaluation and control, strategic management

Introduction

Due to its ability to facilitate transactions and offer financial services to both individuals and corporations, the banking industry is a highly competitive and dynamic sector of the economy (Broby, 2021). The adoption of good strategic management strategies is crucial for banks to attain long-term success and maintain their competitiveness. The process of establishing objectives, creating strategies, and carrying them out is known as strategic management. It helps firms accomplish their goals and targets. Strategic management can significantly affect organizational performance in the banking sector (Bryson & George, 2020; Irawati et al., 2019).

Increased profitability is one of main benefits strategic management contributes for organizational performance in the banking sector. Banks can enhance their profits by lowering expenses and raising income through well-defined goals and well-executed plans for reaching them (Broby, 2021). Banks can achieve increased efficiency by optimizing their operations and optimizing resource allocation through the implementation of strategic management principles (Mansaray, 2020). This can be accomplished via restructuring the bank's operations or by implementing technology, such as automation. This enhanced effectiveness may result in higher output, lower expenses, and quicker service delivery, all of which boost the bank's overall performance (Gitahi & Misango, 2020).

Increased innovation in the banking sector can also be a result of effective strategic management. Establishing unambiguous objectives and promoting innovation and trial and error, banks can create novel and enhanced offerings that cater to the evolving demands of their clientele. In the quickly evolving banking sector, this can assist banks in staying one step ahead of their rivals and being relevant (Al Balushi, et al., 2022; Roghanian et al., 2012).

Furthermore, risk management benefits from strategic management. Credit risk, market risk, and operational risk are just a few of the hazards that banks must control and reduce. Banks that practice effective strategic management will be better able to recognize and evaluate these risks, create management plans for them, and put in place efficient controls to lessen their impact. As a result, there may be a decrease in possible losses, which would enhance the bank's overall performance (Isoh & Nchang, 2020).

In order to survive and remain related in face of a constantly varying environment, an organization and, industry participants must make decisions about its mission, values, goals, strategies, priorities, and activities. This process is known as planning. Therefore, developing a wide-ranging plan or program is not same as strategic planning. but it is "unifying theme that gives coherence and direction to actions and decisions" (Grant, 2003).

Stonehouse (2004), strategic management is a collection of theories and frameworks that help managers plan and imagine the long-term future of the company as a whole. Strategic Management can be defined as "the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objective." By putting strategic plans into action, businesses are able to react appropriately to the unstable environment, ensuring their survival and profitability and giving shareholders a return on their investment (Porter, 1998).

Three stages of strategic management process are generally implementation, assessment, and implementation. According to Certo and Peter (1991), the formulation phase is a method designed to make sure that companies meet their goals.

Second, is this the phase of implementation where activities are started in line with strategic plans? Businesses must define objectives, design policies, motivate employees, and allocate resources for carrying out planned strategies. If they are not executed well, organizations cannot benefit from carrying out organizational analysis, establishing organizational direction, or creating organizational plans. The assessment and control step comes last and calls for gathering data on strategic performance and contrasting it with accepted norms. In addition, performance is measured, current plans are reviewed, and corrective action is taken as part of the evaluation process. "Since there is no assurance that a strategy will be successful tomorrow, strategy evaluation is necessary. Every success brings with it a fresh set of issues; complacent organizations eventually face collapse" (David, 2005).

Chang (2016) asserts that in order for a company to remain competitive, strategic management helps it make important decisions and take actions that can decide what it does, why it does it, and how to do it. According to Ginter, Duncan, and Swayne (2018), businesses that use strategic management techniques are more likely to succeed than those that don't. It was shown to have improved the performance of up to 89 percent of the investigated enterprises.

The implementation of strategic management practices is crucial for an organization as it improves its capacity to prevent issues. This is because managers who foster a planning culture benefit from their subordinates' awareness of the importance of strategic planning, which helps them in their monitoring and forecasting duties.

The connection between an organization's performance and strategic management has been the subject of numerous studies. Although it is simple to identify strategy as the defining factor, there is little research to substantiate this claim. Once more, it is imperative to acknowledge the existence of additional variables, including political ones. Consequently, there is a need to close this research vacuum by making contributions to studies on how strategic management practices affect an organization's performance in the context of Nepalese commercial banks.

Issues

Pant's (2006) research, the majority of organizations in Nepal lack a strategic orientation, despite the fact that a small number of NGOs and growing business organizations have been implementing various forms of strategic management. According to Somlai (1992), sycophancy, domination of power centre and procrastination are characteristics of Nepalese management methods. Top-down management is evident in practice of submitting formalized written memorandums to top management for last approval.

As previously said, there are very few research-based insights available regarding strategic management approaches in Nepal. Examining if and to what extent the fundamental ideas of strategic management as they are understood and applied in the west are applied in Nepal, a developing nation, could yield important insights. Furthermore, research indicates that, like commercial organizations, not-for-profit organizations are likely to encounter growing pressure from stakeholders and competition, which will lead them to embrace and benefit from strategic management approaches. It is obvious that there is a need to comprehend strategic management methods in Nepal given the peculiarities of South Asia and the paucity of study on these practices.

Furthermore, according to O'Regan and Ghobadian (2000), not many scholars have examined how financial organizations formulate their strategies. The scant amount of research that has been done has a strong business sector foundation and is related to the strategy creation process.

Hence, the required issues needed to be addressed for were, about what strategic management techniques do Nepalese commercial banks employ? What is the association between strategic management practices & performance of Nepalese commercial banks? How does strategic management practices influence the performance of commercial banks in Nepal?

Purpose of the Study

In order to address these major issues, the main purpose of study was to ascertain how strategic management techniques affected operational efficiency of commercial banks' in Nepal. The study was conducted to determine strategic management practices adopted by Nepalese commercial banks also to find out association between strategic management practices and performance of Nepalese commercial banks and to analyse influence of strategic management practices on Nepalese commercial banks.

Literature Review

In order to create and maintain a competitive advantage, strategic management is frequently understood as a process that involves conducting an environment analysis, identifying and developing original strategies, and skillfully implementing those strategies (Hoskisson et al., 1999).

Process of defining organisation goals, creating plans and policies to reach them, and assigning resources to carry out plans and policies is known as strategic management. To put it another way, strategy creation, execution, and assessment are all combined under strategic management (David, 2005). Rothaermel, (2013) because it deals with organizational priorities and resource allocation, gives the entire company a general direction, and has an overall impact on the organization, strategic management is a top management responsibility.

Realized or actual strategy is often a blend of emergent (following unanticipated possibilities and adapting to changes in the environment) and intentional (pursuing what was planned) strategies (Mintzberg and Waters, 1985). Realized strategies are usually a combination of prearranged actions and responses to fresh changes in the market and competitive settings that present unanticipated possibilities and difficulties. Since organization's realized strategy is the product of both planned and emergent strategies, strategic management is not always a top-down process. This also necessitates the involvement of the entire company in the formulation and execution of organizational strategies.

The Dynamic Capabilities Theory: According to the dynamic capabilities model, a company needs to be adaptable enough to seize new opportunities when they present themselves and have the technological know-how to incorporate new information sources into its operations in order to succeed in the cutthroat market of today (Gates, 2010). The idea explains how giving environmental issues first priority can help a company's profit line. According to Dudu and Agwu (2014), "dynamic capability" refers to a company's ability to adapt its inner and outside strengths to suit the demands of various circumstances. Given the rapid depletion of exceptional firm-specific resources and talents, flexible skills are crucial in today's intensely competitive business environment (Bagnoli & Megali, 2011). However, it's critical to keep in mind that emotional intelligence and organizational processes are processes that require time to develop and fully integrate into a business. They are used to reorganize the company's resource allocation, which could entail getting rid of outdated inventory or creatively combining resources (Analoui & Samour, 2012). Therefore, banks must enhance their dynamic capacities to apply them for accomplishing long-term goals, since they view them as vital path defined through their past actions and asset stock. Because of this, organizations should work to strengthen their dynamic capacities, as they are viewed as crucial route shaped by banks' historical operations and asset stock, in order to use them to achieve long-term goals.

Eleven factors that influence how a strategy is executed and how it turns out were identified by Okumus (2001) and are frequently covered by different study frameworks. When creating a strategy, several elements must be considered, such as the operational strategy, leadership, structure of organization, interaction individuals control, the outcome, and the surrounding uncertainty. Using these components, he developed a new framework for strategy implementation, which he divided into four main categories: strategic substance, strategic context, operational procedure, and outcome.

The strategic management and organizational performance hypothesis was found to be supported by recent, significant research on strategic management conducted in Nigeria by Nmadu (2007). For example, the research showed that an SBE's company financial performance generally rises as the degree of strategic management practice increases. Higher the overall level of strategic management practices, the better SBEs perform financially in terms of earnings per share, profit before tax, return on capital employed, net asset, current working capital ratio, growth in relative market share, continuous addition of new product lines, and total deposits. Performance tended to rise dramatically as degree of strategic management rose for all of the financial performance metrics that were used.

Veskaisri et al. (2007) found that a business cannot compete effectively unless it has set clear business strategies. The management must scan the environment in which they operate and align their business strategies in a manner that it anticipates and mitigate risks. Managers must take a systematic and flexible approach to management in order to be protected from market uncertainties and achieve firm objectives.

A study was undertaken by Taiwo and Idunnu (2010) to investigate the impact of strategic planning on the performance and survival of firms. The planning-performance link within the company and the impact of strategic planning on First Bank of Nigeria were evaluated by the study. The results showed that planning improved a firm's performance, which eventually affects the firm's ability to survive.

Hitt, Ireland, Sirmon and Trahms (2011) indicated that for firms facing political and societal predicaments, the real solution to better performance lies in strategic management. In their interrogations, Lawal et. al. (2012) similarly demonstrated that strategic management not only improved performance, but also enables the organization to cope with various societal and political needs. Similarly, Muogbo (2013) demonstrated that firms which had implemented strategic management practices, not only indicated high competitiveness, but also showed better growth and development. Njanja (2009) and Otieno (2013) are of the same view that strategic management can improve performance, competitive edge of organizations and survival to a great level.

Muogbo (2013) investigated the effect of strategic management on the growth and success of businesses. Sixty-three employees from 21 different firms across three different senatorial districts were questioned. Descriptive statistics were employed to accomplish the study's four objectives, and Chi-square test was used to evaluate three hypotheses. Organizational productivity, employee performance, and competitiveness were all positively impacted by strategic management. Despite being very uncommon among industrial enterprises, it was also found to help the structural development of businesses.

The relationship between strategic management and business success was investigated by Mohamud et al. (2015). The main goal was to show how strategic management may enhance corporate results. The spearman correlation statistical method was employed to evaluate the data, and the study combined descriptive and correlational research approaches to determine the nature of the correlations. Results of study point to statistically significant and favorable association between organizational performance and strategic management.

Waweru and Omwenga (2015) looked into the relationship between corporate strategy and the performance of private construction enterprises in Kenya. The 68 individuals were chosen by the researchers using a simple random selection procedure, and the primary data was collected using pre-made questionnaires. Survey items in the study were dichotomous, multiple-choice, open-ended, and closed-ended. Furthermore, Likert scale questions were used to get quantitative but computationally subjective results. The data for the analysis came from both primary and secondary sources. Following data collection, SPSS was used for data analysis. Results indicate, all three construction companies had used strategic management techniques that increased production.

The impact of strategic management methods on the functioning of public health institutions in Kenya's Mandera County was examined by Issack and Muathe (2017). Research design method used in study was mixed. Data analysis methods used in study included regression analysis and correlation. Results showed a favorable and substantial relationship between the performance of public health organizations in Mandera County and environmental analysis, strategy creation, strategy application, strategy assessment, and strategy execution. Correlation study revealed a substantial and positive relationship between the performance of public health organizations in Mandera County and environmental analysis, strategy creation, strategy execution, and strategy evaluation.

Agwu (2018) looked into how SMEs in Nigeria were adopting strategic management approaches and how this was improving their market shares, customer bases, and overall business success. Standardized questionnaires were used to collect data from 120 SMEs' owners in Lagos State, Nigeria. The collected data was examined using descriptive statistics and regression analysis. According to the survey, the competitive advantage and business strategy of small and medium-sized businesses (SMEs) are responsible for their increased market shares and clientele. The results did, however, indicate that organizational structure positively affects SMEs' transaction volumes, but not in a statistically significant way.

The links between strategic planning, strategic manoeuvrability, and business performance were examined by Kornelius et al. (2021). 337 companies were chosen at random from an Indonesian oil and gas vendor database by the research using simple random sampling. The partial least square structural equation results showed that strategic planning improved the performance of the business. Moderating effect of strategic manoeuvrability on relationship between corporate performance and strategic planning was also found to be positively correlated by the study.

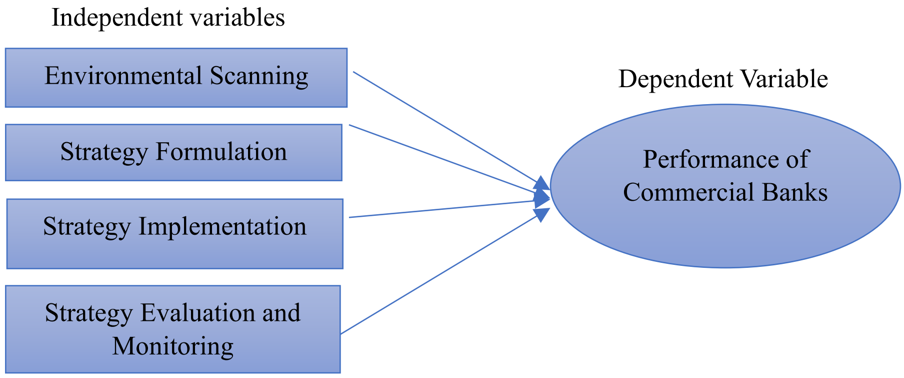
Comparably, Chepkemoi (2021) investigated how strategic planning affected the operations of Kenyan fleet management firms for passenger vehicles. 228 respondents from Nairobi fleet management companies including senior managers, middle-level managers, supervisors, finance managers, and administrators—were chosen for the study using a stratified sampling design. The degree of association between independent and dependent variables was ascertained using linear regression analysis. Findings demonstrated a substantial and favorable relationship between fleet management firm performance and strategic planning.

The implementation of strategic management in banks as a means of enhancing performance has received significant attention in the literature. Nevertheless, there are still gaps in the knowledge about how strategic management affects performance in the banking industry, notwithstanding what has been published about it. Some authors have emphasized this, saying that there is no clear-cut correlation between the success of banks and the strategic management process. The hypothesis that the performance of Nepali banks is correlated with strategic management methods is still unproven.

Conceptual Framework of the Study

Four independent variables i.e., environmental scanning, strategy formulation, strategy implementation, and strategy evaluation, make up suggested conceptual framework for this study, which is related to strategic management techniques. The banking industry's organizational performance is expected to be impacted by the four strategic management approaches.

Figure 1: Conceptual Framework



Hypothesis Formulation

H1: The performance of Nepalese commercial banks is significantly and favorably impacted by environment analysis.
H2: Strategy formulation significantly influences the performance of Nepalese commercial banks.
H3: Strategy implementation has a significant and positive influence on the performance Nepalese commercial banks.
H4: Strategy evaluation and monitoring significantly and positively impact the performance of Nepalese commercial banks.

Research Methodology

Research Design

The current study is descriptive and causal comparative in nature which is based on primary data collected.

Sampling and Data Collection

Primary data was collected using a Likert-type five-point scale, where 1 represents strongly disagree and 5 represents strongly agree (Likert, 1932). This method is employed because it quickly and cheaply collects enormous volumes of data from a sizable population. The research population includes all the active commercial banks operating in Nepal. The sampling procedure is followed through random sampling technique through which a total of 10 Nepalese commercial banks are selected for the study. The target respondents were then chosen using a purposive selection technique. Bank managers, project managers' "coordinators," and administration officers were the research's target respondents. Of the 237 questionnaires distributed, 216 usable questionnaires were returned.

Data Analysis

Data from the questionnaire was carefully entered into a computer data sheet using SPSS software. Descriptive and inferential analysis was carried out using these instruments. In a similar vein, additional software, such as Excel, was also used to examine and report the results. For inferential analysis, one-way ANOVA tests, primarily chi-square tests, have been utilised for hypothesis testing. Similarly, frequency tables and centre tendency have been employed in descriptive analysis.

Results and Analysis

In the present section the data analysis for several strategic management variables and performance of commercial banks is shown. Data analysis was carried through SPSS.

Relationship between strategic management variables and commercial banks performance.

Table 1: Mean scores, Standard deviations and Correlations of the sample along all Strategic Management variables

	Mean	S.D.	PCB	SEC	SI	SF	ES
PCB	4.1455	0.66335	1				

Cont.

SEC	4.1364	0.57256	.705**	1			
SI	3.9182	0.65578	.641**	.661**	1		
SF	3.6411	0.60690	.646**	.638**	.750**	1	
ES	4.3621	0.51376	.654**	.515**	.570**	.753**	1

** Correlations are significant at the 0.01 level (2-tailed)

From above table Nepalese commercial banks performance affected by strategic management practices is studied. The mean scores shows that all strategic management variables are moderately high important to determine the firm's performance in all dimensions.

The mean scores of environmental scanning dimension are showing above average results (i.e., ES=4.3621). The mean scores of all the items on strategy formulation dimension are showing average (i.e., SF=3.6411). The strategy implementation dimension reveals mean scores above average (i.e., SI=3.9182). The above average mean scores are examined in the strategy evaluation and control dimension (i.e., SEC=4.1364). The mean scores for performance of commercial banks dimension are found to be also above average (i.e., PCB=4.1455). It was found that correlation among the research variables is found to be positive and high. It means all independent variables relate well with the dependent variable taken in the study. Hence it is inferred there is significant association in commercial banks performance and strategic management practices followed.

Influence of Independent strategic management variables on commercial banks performance

Table 2 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression 1	18.740	4	6.346	45.007	.000[b]
Residual	16.992	212	.180		
Total	35.732	216			

a. Dependent Variable: PCB
b. Predictors: (Constant), ES, SF, SI, SEC

The above table provides the value of F i.e., 45.007 which is significant. It means a significant model has emerged from regression analysis.

Table 3 Regression Coefficient Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	.685	.647	.40038

a. Predictors: (Constant), ES, SF, SI, SEC

From table 3 the R^2 value i.e., 0.685 predicts the variation in dependent variable due to independent variables. The value of R^2 shows that 68.5% variation in dependent variable i.e., performance of commercial banks, is explained by independent variables i.e., environmental scanning, strategy formulation, strategy implementation and strategy evaluation and control taken under study. Rest 31.5% variation in dependent variables will be due to other factors outside the model. This infers there is moderately high influence of independent variables on dependent variable.

Table 4 Multiple Regression

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

Cont.

1	(Constant)	.612	.401		1.459	.148
	ES	.306	.087	.283	3.654	.000
	SF	.349	.085	.370	4.562	.000
	SI	.232	.067	.265	3.245	.001
	SEC	.323	.063	.376	3.265	.001

a. Dependent Variable: PCB

The above table shows the influence of 'environmental scanning' on 'performance of commercial banks' is significant with value of t-statistic of 3.654 hence, the alternative hypothesis H1: The performance of Nepalese commercial banks is significantly and favorably impacted by environment analysis.

T value for the variable 'strategy formulation' is positive and significant i.e., 4.562, therefore we can say that 'strategy formulation' significantly impact 'performance of commercial banks'. So, hypothesis H2: Strategy formulation significantly influences the performance of Nepalese commercial banks is accepted.

It has been found that t-statistic for variable 'strategy implementation' is positive and significant. Hence, we can say that 'strategy implementation' influences 'performance of commercial banks' positively and significantly. Therefore, we accept hypothesis H3: Strategy implementation has a significant and positive influence on the performance Nepalese commercial banks.

The t-value of variable 'strategy evaluation and control' is also positive and significant i.e., 3.265 hence, we infer that performance of commercial banks in influenced by strategy evaluation and control. Therefore, we accept hypothesis H4: Strategy evaluation and monitoring significantly and positively impact the performance of Nepalese commercial banks.

Discussion

The goal of the current study was to determine how strategic management approaches relate to and affect Nepalese commercial banks' performance. Several research approaches i.e., descriptive statistics, correlations, regression were applied to develop association between several independent variables along dimension of strategic management practices and dependent variable of Nepalese commercial bank performance.

As per the findings and results of the current study it is inferred that strategic management practices are important for the improvement of commercial bank's performance in Nepal. The research results demonstrates that strategic management practices have positive impact not only on financial performance but on non-financial performance of these organizations (Aboramadan and Borgonovi, 2016). Strategic management is the long-term competitive plans of any organisation. It gives competitive advantage to the organisations and if the practices of strategic management are followed by firms consistently it can provide sustainable growth to the companies. Nepalese banking sector is facing the challenges to accomplish the sustainable development goals, in this context it becomes imperative to apply the approaches of strategic management by the firms.

The current study shows that practices of strategic management are significant for the improvement of banking sector performance but still there are variations in the implementation of various approaches in practice. Strategic management practices in Nepalese banks differs from the theoretical approaches practiced by the western countries. Strategic management is understood by managers to involve creating long-term plans and sharing them with different organizational departments and units. They put more of a focus on tracking and developing yearly strategic plans through participation. Plans for strategy are created in order to obtain a competitive edge and satisfy clients. Managers don't appear to know how to stand out from the competition and actually differentiate their goods and services, though. Our results so suggest that Nepalese banking managers have not specifically considered how they should pursue unique differentiation strategies to establish and sustain competitive advantages.

Our results also show that strategic management in Nepal is largely reactive and short-term oriented, with a focus on adapting to changes in the environment and competition. The unstable environment in Nepal, which makes it exceedingly challenging for managers to do long-term forecasts and establish future plans, may be the cause. The development and execution of long-term goals appear to be hampered by internal resource limits and frequent changes in governmental legislation. Managers' ability to conduct a sufficient and correct situational analysis is further hampered by Nepal's dearth of trustworthy, timely, and comprehensive business information.

As highlighted by Mosley et al. (2012), the data imply that these behaviors are essential to banks' financial performance. The findings also indicated that improved "program performance," or non-financial success, can be attained using strategic management techniques. The findings also support the hypothesis put forth by Letts et al. (1999) between program performance with managerial effectiveness.

Conclusion

By addressing a research gap on association between strategic management and bank performance, an area where fewer well-defined relationships exist, study makes a significant contribution to the empirical body of knowledge about the banking sector. The findings point to a significant correlation between strategic management techniques and the financial and non-financial success of Nepal's commercial banks. Thus, these findings demonstrate unequivocally the need for strategic management techniques in order to improve banks' performance. Secondly, the study surpasses the traditional approach of observing performance solely based on financing accessibility. Present research has an advantage over many other studies that only looked at relationship between use of formal planning as well as financial performance determined by income generation or funding availability, thereby missing other crucial components of commercial banks' financial performance like efficiency and transparency. Moreover, by incorporating both non-financial and financial performance measures—which are thought to be absolutely necessary to investigate such a link—this research provides a more nuanced view of this relationship. Lastly, earlier research focused solely on the application of planning, neglecting other critical components of an all-encompassing strategic management strategy, like implementation and assessment.

Implications

This study emphasizes how strategic management affects performance of commercial banks in Nepal. Study found that banks will perform better financially in terms of raising capital and using it effectively if they perform a thorough analysis of their current state, considering opportunities, threats, weaknesses, strengths, stakeholders, and community needs; defining their strategic alternatives in terms of mission, goals, and strategies; carrying out their plans and strategies while closely observing the key drivers of strategy implementation; and finally tracking and evaluating their strategies and progress. Furthermore, it is evident that banks that employ stronger strategic management techniques successfully complete their projects and provide their services. In light of the findings, we recommend that the banking industry implement the following strategic management techniques in order to attain improved performance: A review of the banks' current service, beneficiary, and stakeholder environments, external environmental analysis: assessing prospects and risks in relation to donors, rivals, sociopolitical and economic impacts, and stakeholder analysis, analysis of internal environment: determining internal strengths and weaknesses, creating short- and long-term goals that are time-based, realistic, quantifiable, and achievable, outlining the goals and tactics of several strategic options, consistently evaluating the mission statement, aims, and objectives in light of modifications to the workplace, considering that the leadership, corporate culture, and structure are important factors that influence how a strategy is implemented, creating a observation framework.

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