THE RELATIONSHIP BETWEEN BUSINESS STRATEGY AND ORGANIZATIONAL PERFORMANCE THROUGH PERFORMANCE MEASURES OF LIBYAN COMMERCIAL BANKS

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Abstract
Organisational performance has a significant impact on the development and economic growth of a country. Currently, Libyan banks suffer from poor performance. Hence, this study examines the relationship between business strategy (prospector) and organisational performance (financial performance) through the performance measures (non-financial measures) of Libyan commercial banks. This study achieves this objective based on seven hypotheses from previous studies and contingency theory. In examining these hypotheses, 217 questionnaires were collected, but only 154 questionnaires from branch managers of Libyan commercial banks were usable. Data analysis was conducted by employing descriptive analysis, factor analysis, reliability analysis, and multiple regressions. The findings indicate that prospector strategy has a positive and significant relationship with non-financial measures and organisational performance. Furthermore, the non-financial measures have a positive influence on organisational performance. The results of this study imply that managers should consider the prospector strategy that may influence the performance measures. This leads to improvements in the organisational performance.
Keywords: Business strategy, performance measures, organisational performance, contingency theory, Libyan commercial banks.

1. INTRODUCTION

Organisational performance is one of the most important constructs in achieving the goals of an organisation (Richard, Devinney, Yip & Johnson, 2009). Organisational performance refers to how effectively an organisation is executing an appropriate strategy (Otley, 1999). Increases in the bank's performance have a significant impact on the development and economic growth of any country (Levine, 2005; Paradi & Zhu, 2012). Libyan commercial banks that suffer from the poor performance report a high level of non-performing loans and low revenues (CBL, 2012; Chamiea, Elfeturi & Abusneina, 1997; Gabgub, 2009). This study views the banks' performance from a financial perspective (objective measures).

Although organisational performance is affected by multiple factors, contingency factors have been widely recognised as important factors that can affect it (Gosselin, 2005; Henri, 2006a; Hoque, 2004; Lee & Yang, 2011). Business strategy is one of the important variables in contingency studies (Chong & Chong, 1997). In organisational literature (e.g., Miles, Snow, Meyer & Coleman, 1978), it has been suggested that improved business performance requires an organisational structure and management style that is related to a specific organisational strategy. Furthermore, Devece, Marqués, Martín, and Albert (2017) found the strategy has a stronger direct impact on organisational performance. Hence, the organisational strategy aims to improve the organisational performance through the use of strategies such as prospector, defender, analyser, and a reactor that fit with the organisation. This study focuses on the prospector strategy. The literature reveals that the link between business strategy and organisational performance was both direct and indirect (Hoque & James, 2000; Lee & Yang, 2011; Verbeeten & Boons, 2009). Furthermore, several studies

emphasised the need to use multiple performance measures in the service sector, including the banking sector (e.g. Hussain & Hoque, 2002; Kaplan & Norton, 2001; Lorenzo, 2008). In addition, Yuliansyah, Gurd, and Mohamed (2017) emphasised the need to adopt business strategies when designing performance measurement systems to obtain superior performance. Therefore, this study used the performance measures as the mediator variable of the relationship between the contingency and institutional factors, and organisational performance. In addition, this study focuses on three perspectives of the Balanced Scorecard (BSC) (customer satisfaction, internal business process, and innovation and learning) that represents non-financial performance measures.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This study uses contingency theory to help explain the relationship between factors. Contingency theory suggests that the fit between business strategy and the design of management control systems is relevant to superior organisational performance (Chenhall, 2003; Langfield-Smith, 1997).

2.1 Business Strategy and Performance Measures

The organisation ought to raise its level of competence in performance measurement and rely upon the fit with the strategy in the design of the PMS (Nanni, Dixon & Vollmann, 1992). Prospector strategy tends to pay attention to non-financial measures relating to products, employee quality and customers whereas the defenders tend to pay attention to financial measurements (Gosselin, 2005). In addition, Ittner, Larcker, and Rajan (1997) reported that the relative weight attached to non-financial measurements is more in firms that adopt an innovative oriented strategy.

Based on the discussion above, the following hypothesis is proposed:

H1: There is a positive relationship between business strategy and the use of performance measures.

2.2 Business Strategy and Organisational Performance

Higher performance will be realised by firms if managerial practices go along with the strategic preference of the organisation (Venkatraman, Henderson & Oldach, 1993). In addition, Hoque (2004) pointed out that the most important factor for organisational performance is the strategy. In support of this argument, Van der Stede, Chow, and Lin (2006) reported a positive influence of the quality-based manufacturing strategy on performance. Also, Mazzarol, Reboud, and Soutar (2009) found a relationship between strategy and organisational performance. Furthermore, Kiprotich, Gachunga, and Bonuke (2018) found that there was a significant positive relationship between cost leadership strategy and the performance of firms.

This leads to the following hypothesis:

H2: There is a positive relationship between business strategy and organisational performance.

2.3 Performance Measures and Organisational Performance

The increased attention of measures of performance evaluation by academics and consultants reflects the greater pressure to improve organisational performance (Hoque, 2004; Pollanen et al., 2016; Nanni et al., 1992; Vieira et al., 2017). Furthermore, Banker and Mashruwala (2007) found that the information on performance measures is significant in

explaining performance ratings. In this context, non-financial performance measures have been argued to be better measures, which lead to a financial performance inthe future and have a positive effect on the long-term profitability (Hussain & Gunasekaran, 2002).

In view of this, this study hypothesises that:

H3: There is a positive relationship between the use of performance measure and organisational performance.

2.4 Business Strategy, Performance Measures and Organisational Performance

Business strategy is an important factor that affects the performance measures and organisational performance (Govindarajan & Gupta, 1985). Furthermore, the association between performance measures and organisational performance is dependent on business strategy (Hoque, 2004). In addition, firms would achieve higher performance if they align managerial practices to their strategic priorities (Venkatraman et al., 1993). Moreover, Yuliansyah, Gurd and Mohamed (2017) stated that business strategies should be considered in performance measurement systems to enhance performance.

Based on the discussion above, we hypothesise:

H4: Use of performance measures positively mediates the relationship between business strategy and organisational performance.

3. RESEARCH METHOD

3.1 Data Collection

This study focuses only on 16 Libyan commercial banks, which have 522 branches (CBL, 2017). The sample size covered 217 branches and was determined by referring to Krejcie and Morgan (1970). This study uses a quantitative approach through the distribution of questionnaires to the respondents of branch managers of the Libyan commercial banks. This study is based on 154 usable questionnaires which are analysed using SPSS 19 (Final response rate 51%).

3.2 Measurement of Variables

The variables are measured using a five-point Likert scale ranging from 1= "Strongly disagree" to 5= "Strongly agree".

3.2.1 Business Strategy

This study follows Chenhall and Langfield-Smith (1998); and Hoque (2004) in measuring business strategy. Respondents are asked to indicate the degree of emphasis that their branches place on strategic activities.

Table 1: Measures of business strategy

Variable	Dimension	Items
	Prospectors	Provide high-quality products.
		Provide fast delivery.
		Reduce the cost of coordination.
		Provide service and support after service delivery.

3.2.2 Performance Measures

The evaluation of performance measures was adopted from Kaplan and Norton (1996); Hoqu Mia, and Alam (2001); Lee and Yang (2011). Non-financial measures are taken from the three dimensions of the BSC. The respondents were asked to indicate each performance measure currently used by the top management in their branches for performance evaluation.

Table 2: Measures for performance measures

Variable	Dimension	Items
Non-FinancialMeasures	Customer Satisfaction	Learning and Growth Market share to main services. On time delivery service.Customer retention. Customer response time. Survey of customer satisfaction.
Internal Business Process		Teamwork among employees. Rate the error of operational processes. Employee turnover rate.Employee productivity. Number of customer complaints.
Learning and Growth		Time-to-market of new services. Number of new services launched. Employee satisfaction. Percentage of revenue from news services. Employees'suggestions. Training hours per employee.

3.2.3 Organisational Performance

Measures of organisational performance depend on the managers' perception of the organisational performance (increase/decrease) measured by financial indicators only Khong and Richardson (2003); Ringim (2012). The respondents are required to rate their branch over the last three years, indicating the extent of perceived performance.

Table 3: Measures of organisational performance

Variable	Dimension	Items
Organisational Performance	Financial Performance	Number of performing loan. Yearly profit. Non-performing loans. Deposit growth. Collection of bad debts. Fee on transaction services. Current and savings account. Volume of fixed deposit. Financial performance targets. Level of expenses.

4. ANALYSIS

4.1 Reliability Test

The term "reliability" refers to the accuracy or precision of the scale (Dunn, Seaker, & Waller, 1994). Reliability is most commonly estimated using Cronbach's Coefficient Alpha. The resulting Alpha was 0.773 for prospector strategy, 0.835 for non-financial measures, and 0.917 for organisational performance. All Cronbach's Alpha scores were above 0.70 which are acceptable as recommended by Nunnaly (1978).

4.2 Regression Analysis

Regression analysis is used to determine the relationship between more than one independent variable and one or more dependent variable (Hair, Black, Babin & Anderson, 2010; Pallant, 2013). Table 4 showsthat F value is statistically significant (F=

33.434, P < 0.001), which indicates that the model is statistically significant as suggested by Hair et al. (2010). The R^2 for this model is fit (R^2=.175). Business strategy contributes significantly to explaining the performance measures (b = 0. 425, t = 5.782, Sig = 0.000), explaining 42%, and has significant influence. Therefore, it can be concluded that the first hypothesis is supported.

Table 4: Regression model of the relationship between business strategy and performance measure

Model	Coeff.(B)	Std. Error	T	Beta (b)	Sig
Constant	1.906	.237	8.050		.000
Strategy Prospector	.385	.067	5.782	.425	.000
R2					.175
Adjusted R2					.180
F change					33.434****
**** P < 0.001, *** P < 0.01, ** P < 0.05, * P < 0.10.					

Table 5 shows that F value is statistically significant (F= 14.660, P < 0.001). The R^2 for this model is also fit (R^2=.088). Performance measure contributes significantly to explain the organisational performance (b
= 0. 297, t = 3.829, Sig = 0.000), explaining 29%, and has significant influence. Accordingly, hypothesis two is supported.

Table 5: Regression model of the relationship between performance measure and organisational performance

Model	Coeff.(B)	Std. Error	T	Beta (b)	Sig
Constant	2.474	.253	9.783	.297	.000
Strategy Prospector	.292	.076	3.829		.000
R2					.088
Adjusted R2					.082
F change					14.660****
**** P < 0.001, *** P < 0.01, ** P < 0.05, * P < 0.10.					

Table 6 shows that F value is statistically significant (F= 7.323, P < 0.01). Business strategy contributes significantly to explain the organisational performance (b = 0. 214, t = 2.706, Sig = 0.000), explaining 21%, and has significant influence. This leads to accepting the third hypothesis.

Table 6: Regression model of the relationship between business strategy and organisational performance

Model	Coeff.(B)	Std. Error	T	Beta (b)	Sig
Constant	2.757	.237	10.949		.000
Strategy Prospector	.192	.071	2.706	.214	.008
R2					.040
Adjusted R2					..046
F change					7.323***
**** P < 0.001, *** P < 0.01, ** P < 0.05, * P < 0.10					

Table 7 shows that business strategy variable was significantly related to organisational performance (b = 0.214***). However, when the performance measures were included in the relationship between the business strategy and organisational performance, the relationship between them became insignificant with decreased Beta value (b = 0.108). Therefore, the hypothesis that performance measures mediate the relationship between business strategy and organisational performance is fully supported the hypothesis H4.

Table 7: Summary of the results of mediating test (performance measures)

Predictors Variables	Performance Measures (PM)	Organisational Performance (OP)	OP with PM	Result
Strategy Prospector	0.425****	0.214***	0.108	Full Mediation
**** P < 0.001, *** P < 0.01, ** P < 0.05, * P < 0.10				

5. DISCUSSION AND CONCLUSIONS

This paper examines the links between the business strategy (prospector), the use of performance measures (non-financial measures), and organisational performance (financial performance). To test these relationships, the study surveyed 154 branches of Libyan commercial banks. The paper used contingency theory to examine the study phenomena.

The results suggest a significant relationship between business strategy and performance measures. This result supports the hypotheses of the study. This result is also consistent with the contingency theory, which asserts that the optimum design of the performance measure is dependent on the strategy of the organisation (Chenhall, 2003; Langfield, 1997). In addition, it is consistent with many studies such as Van der Stede (2006), Hoque (2004) and Abernethy and Guthrie (1994). Moreover, the study found that the relationship between performance measures and organisational performance is positive and significant. Such findings are consistent with the argument that the measurement of the performance evaluation by academics and consultants reflects the increased pressure to improve organisational performance (Hoque, 2004; Nanni et al., 1992; Pollanen et al., 2016). Furthermore, other researchers found that performance measures have a positive influence on the financial performance of the organisations in respect of long-term profitability (Banker et al., 2000; Van der Stede et al., 2006). In addition to the previous results, the study found that business strategy has a positive and significant relationship with organisational performance. This result is in line with Miles and Snow's (1994), which indicates that when the management style is connected with a business strategy, this will lead to the improvement of business performance. This result is also consistent with the contingency theory that stresses that the prospector strategy is a reason to use new techniques by firms which would eventually lead to improving corporate performance (Abrahamson, 1996).

The relationship between business strategy and organisational performance may not be only direct, but also indirect through the contribution of performance measures between those variables. Consequently, it leads to the improvement in the organisational performance. Such a notion can be considered to be one of the assumptions of the contingency theory that assumes that the fit between contingency variables, and the

design of the Management Control Systems (MCS) is relevant to the performance of the organisation (Chenhall, 2003; Ittner et al., 1997; Yuliansyah et al., 2017).

This study contributes to organisational performance related issues by investigating the mediating role of performance measures in the relationship between business strategy and organisational performance. Additionally, it investigates issues in the commercial banks of Libya, as a developing country. It opens the door for future studies to investigate issues related to performance in developing countries. Future studies could compare the results extracted from specialised banks and commercial banks as well as financial institutions.

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