



# **Addis Ababa University**

## **College of Business & Economics**

### **The Effect of Strategic Management on Organizational Performance: The Case of Private Commercial Banks in Ethiopia**

**By: Enkuselassie Bahru**

**Advisor: Tilahun Teklu (PhD)**

**A Thesis Submitted to the  
College of Business and Economics of Addis Ababa University  
in partial fulfillment of the requirements for the Degree  
Master of Business Administration**

**March, 2022**

**Addis Ababa, Ethiopia**

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#### **Approved by Board of Examiners**

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## **Declaration**

I, the undersigned, hereby declare that this thesis entitled, 'The Effect of Strategic Management on Organizational Performance: The Case of Private Commercial Banks in Ethiopia' is my original work, prepared under the guidance of my advisor Tilahun Teklu (PhD). And has not been presented for a degree or any other award in Addis Ababa University or any other institution before. All source of materials used for the thesis have been duly acknowledged.

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## **Certification**

I certify that I have read this thesis entitled “The Effect of Strategic Management on Organizational Performance: The Case of Private Commercial Banks in Ethiopia” by Enkuselassie Bahru. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of Master of Business Administration.

Advisor:

Tilahun Teklu (PhD)

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Signature

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## **Acronyms and Abbreviations**

**ADP** – Analyze data, Deposit study, Promote science

**AMCES** – Association Management, Consulting and Evaluation Services

**BOA** – Bank of Abyssinia

**BSC** – Balanced Score Card

**CEO** – Chief Executive Officer

**CLRM** – Classical Linear Regression Model

**EPS** – Earnings Per Share

**GDP** – Gross Domestic Product

**NBE** – National Bank of Ethiopia

**NGO** – Non-Governmental Organization

**ROA** – Return on Asset

**ROI** – Return on Investment

**SPSS** - Statistical Package for Social Sciences

**SWOT** – Strengths, Weaknesses, Opportunities and Threats

**TQM** – Total Quality Management

**VIF** – Variance Inflation Factor

## **Abstract**

*With the rise of vigorous competition and an indication by the government of Ethiopia to open up the financial sector of the country to foreign actors in the near future; the need to utilize every possible tool to improve the performance of organizations has never been more crucial. The study analyzes the effect of strategic management, which can serve as a tool to address the above-mentioned challenges, on organizational performance of private commercial banks in Ethiopia. To achieve the objective of the study, a quantitative research approach was used where both primary and secondary data have been utilized. To obtain the primary data, a structured questionnaire was distributed to employees working at different positions in four private commercial banks. These banks were selected using systematic sampling method from a list of sixteen banks classified into four strata based on their level of performance. So, a combination of systematic sampling and stratified sampling methods were used in the study. The data that was collected was subjected to correlation and regression analysis using SPSS version 25. The result of the study indicated that the elements of strategic management (strategy formulation, strategy implementation and strategy evaluation/ control) are positively correlated with each other and have a largely significant positive influence on organizational performance. Based on these findings, the study recommends that private commercial banks in Ethiopia need to adopt Strategic Business Unit structure so as to delegate authority and responsibility to SBU managers giving top-level management a chance to focus on corporate and long-term issues, introduce continuous environmental analysis which can serve as a basis for taking proactive measures in anticipation of the future, apply collective management to make sure that all employees have a say in developing strategies in a way that enhances their organizational commitment which in turn improves productivity and overall organizational performance.*

**Key Words:** *Strategic Management, Strategy Formulation, Strategy Implementation, Strategy Evaluation/ Control, Organizational Performance.*

# Chapter One

## Introduction

### 1.1. Background

#### 1.1.1. Conceptual Background

Organizations operate within an interactive framework where they influence their environment and at the same time they are also influenced by elements within their environment. A multitude of factors can affect the performance of organizations. These factors can be broadly classified into two as internal and external factors based on the level of control that the organization exercises over them. Those factors on which the organization has significant influence are called internal factors while those on which the organization enjoys little to no control are called external factors. Some of the external factors are political and legal frameworks, socio-economic conditions, infrastructure, culture etc. Similarly, some of the internal factors that can affect organizational performance are employee morale and attitude, organizational culture, managerial proficiency, the skill and capabilities of staff etc. (Kennedy, 2020)

Management style and more specifically strategic management is one of the internal factors that can have an influence on the performance of organizations. There are many definitions of strategic management focusing on different aspects of the concept. Strategic management is a process through which organizations attempt to achieve their objectives by integrating the decisions of formulation, implementation and evaluation in different functional units (Fred, 2007). This definition focuses on the capacity of strategic management to bring together different functional units to attain a common goal.

Strategic management can also be defined as a managerial process of design, implementation and evaluation so as to create and maintain the competitive advantage of an organization (Sammut-Bonnici, 2015). Here the focus shifts towards the different decisions that face management and the need to make those decisions in a way that maintains or advances the competitive position of an organization. In yet another definition, strategic management is described as a continuous process of aligning the decisions of an organization with its vision and mission and prepare it for the future. In this respect, the prominent managerial thinker Peter Drucker (1954) stated “Management has

no choice but to anticipate the future, to attempt to mold it, and to balance short-range and long-range goals.”

### **1.1.2. The Ethiopian Banking Sector**

Banks are important organizations or financial institutions that play significant roles in the economies of countries. Some of these roles are intermediation or the transfer funds from those who have surplus (depositors) to those who have deficits (borrowers), ensuring the liquidity of economies by assuring depositors withdrawals upon request, reducing risks associated with asymmetry of information, improving the efficiency of money transfer, encouraging entrepreneurial endeavors etc. Commercial banks are organizations that accept deposit from customers and make profit by extending credits to borrowers. In providing such services, these banks face many challenges such as government regulation, cyber security issues, changing customer expectations, rising competition from financial and non-financial sectors etc. (Hadad, 2019).

Currently, the financial sector of Ethiopia includes the national bank, commercial banks, insurance companies, pension fund, savings and credit cooperatives and microfinance institutions. Although there are a number of players in the financial sector of the country, banks account for a lion’s share of the sector measured by all major indicators such as assets (95%), equities (77%), loans and advances (94%) and deposits (94%) (Abebaw, 2014). This solidifies the position of banks as the most important financial institutions in the country which play a significant role in the growth and stability of the national economy. It is due to this fact that the researcher selected banks as an area of focus in the study; because anything that influences banks has an influence on the financial sector as a whole which in turn influences the overall economies of countries as it has been observed in the 2008 Global Financial Crisis (Tarashev, Borio and Tsatsaronis, 2009).

The banking sector in Ethiopia comprises of 19 banks out of which 2 are publicly owned and managed and the rest are private share companies. The private banks in the country were established following the 1994 policy of deregulation that sought to reorganize the economy according to the free market economic ideology. Until recently, the number of private commercial banks in Ethiopia was 16. However, in Sep, 28 2020, the first Islamic Bank in the country, Zam Zam Bank obtained a license to operate which raised the total number of private banks to 17 (NBE, 2021). But this bank didn’t start operation by opening a branch office until June of 2021 and hence was not included in this study.

Among the 19 banks in Ethiopia, only 16 private commercial banks are considered in the study, excluding the public banks. The reason for this is related with the relative difference between private and public banks in withstanding various internal and external challenges stated above. Taking the challenge of foreign competition as an example, if foreign banks were to join the financial sector of Ethiopia, as reiterated by the government, the potential impact wouldn't be the same on public and private banks. The public banks have significant capital and state support that can act as a cushion to protect them against the negative implications of competition. On the other hand, private commercial banks would be vulnerable being relatively less experienced and less capitalized indicating that the burden of urgently improving performance lies heavily on the shoulders of these banks. Thus, this study is aimed at providing an additional tool to the arsenal of these vulnerable private commercial banks by studying the potential effect of strategic management on organizational performance.

When the strategic management practice of private commercial banks in Ethiopia is considered; these banks can be described as having an understanding of the concept of strategic management. However, among the three processes of strategic management, the banks tend to give the highest attention to strategy formulation with limited attention given to strategy implementation and evaluation/ control processes. Owing to this, the banks also enjoy the greatest success from strategy formulation (Wubishet, 2018).

The Ethiopian banking sector faces many challenges such as government regulation, lack of infrastructure and rising competition (The Africa Report, 2013). The level of competition among banks in the country is rising which is even more intense among the private commercial banks (Gebeyehu, 2018). Additionally, there are some indications that the Ethiopian government will open the financial sector to foreign companies in the near future which can further increase the level of competition in the banking industry. This gives a clear signal for domestic banks that they need to improve their performance or risk being overtaken by the more resourceful and more experienced foreign banks. Although liberalization of the financial sector may have advantages, it can also create problems not only for the banking sector but also for the national economy as a whole such as stressing the limited supervisory capacity of the government, intense competitive pressure on local institutions by multinationals and capital outflows (Raji, 2018).

A study analyzing the effect of strategic management on organizational performance is important and timely for many reasons. First, it can serve as an addition to literature about the relationship

between the two variables. Second, it can provide managers with an additional tool to overcome many of the challenges that their organizations face. Third, understanding of the relationship between strategic management and organizational performance can help reveal areas that require improvement while applying the different strategic management processes. Thus, this study aims to examine the effect of strategic management on the performance of organizations with a focus on private commercial banks in Ethiopia. This effect is examined by specifically considering the influences of the three processes of strategic management i.e. strategy formulation, strategy implementation and strategy evaluation/ control.

## **1.2. Statement of the Problem**

The importance of strategic management has been growing overtime due to the unpredictable nature of the current business environment. Some factors that can be attributed to this unpredictable nature are rapid technological advancement, globalization, the rise of competition both from domestic and international markets, etc. As a result, the responsibility of managers to lead their organizations on the right path has never been more complex (Lopez and Martin, 2008). Strategic management can be defined as a set of managerial decisions that determine the long-term performance of an organization (Hunger and Wheelen, 2011).

Nowadays, managers are increasingly pressured to continuously improve the performance of their organizations. Reports about the level of performance of an organization are used to measure the success rate of the organization as well as its future prospect. Moreover, the users of such information such as owners, customers and prospective investors consider the reports as reflections on the leadership capability of managers. (Widarti, Subiyanto and Pramajaya, 2018). In response, managers attempt to employ different mechanisms to improve the performance of their organization. One of the tools at the disposal of managers which can be used to advance organizational performance is strategic management.

Organizations can get many benefits by practicing strategic management. These benefits can be broadly divided into two as financial and non-financial benefits. Financially, strategic management enables organizations to improve sales, profitability and market orientation which is associated with the tendency of such firms to analyze and identify opportunities and threats in their environment. These businesses are more likely to anticipate unexpected future shocks which puts them in a better position to respond to these shocks compared to their competitors. In addition to financial benefits, strategic management also provides non-financial benefits to organizations.

Some of these are building capacity to prevent or solve problems, reducing resistance to change among employees, ensuring higher productivity associated with better performance-reward linkage, creating higher organizational commitment due to better communication etc. (Fred, 2007).

Nowadays, banks across the world face many challenges such as rising global competition, government regulation, competition from non-bank sectors such as telecommunication companies, growing and ever-changing demand from customers, security risks etc. In addition to the above listed issues, banks in developing nations such as Ethiopia have to deal with certain factors, which are characteristic of such countries, that can affect their performance. Some of these factors are lack of adequate infrastructure such as telecommunication and electricity, lack of basic literacy among the population, recurrent political instability etc. Private commercial banks in Ethiopia use strategic management as a tool to overcome these challenges. (Wubishet, 2018). Thus, this study aims to analyze the effect of strategic management on the performance of organizations by focusing on private commercial banks in Ethiopia.

The influence of strategic management on the performance of organizations has been examined by a number of researchers (e.g. Suva (2017) and Afande (2013)). These different studies have shown the various approaches through which the performance of an organization can be affected by its strategic management practices. The result of the different research works overwhelmingly point towards a positive effect of strategic management on organizational performance.

There are a limited number of studies that have been conducted in the area of strategic management in Ethiopia. And most of these studies focus on analyzing the strategic management practices of organizations instead of their implication on organizational performance. And those that consider this implication, focus on organizations other than banks. Hence, this study aims to fill this gap by analyzing the effect of strategic management on organizational performance of private commercial banks in Ethiopia.

### **1.3. Research questions**

In order to achieve the purpose of the research and explore the issues mentioned in the statement of the problem, the study raised the following research questions:

#### **1.3.1. General Research Question**

The general research question is:

What is the influence of strategic management on organizational performance of private commercial banks in Ethiopia?

### **1.3.2. Specific Research Questions**

The specific research questions are:

- How does strategy formulation influence the performance of private commercial banks in Ethiopia?
- How does strategy implementation affect the performance of private commercial banks in Ethiopia?
- What is the influence of strategy evaluation/ control on the performance of private commercial banks in Ethiopia?

## **1.4. Objectives of the Study**

### **1.4.1. General objective**

The general objective of the study is to analyze the relationship between strategic management and organizational performance of private commercial banks in Ethiopia.

### **1.4.2. Specific objectives**

The specific objectives of the study are:

- ✓ To examine the contribution of strategy formulation on the performance of private commercial banks in Ethiopia.
- ✓ To investigate the effect of strategy implementation on the performance of private commercial banks in Ethiopia.
- ✓ To consider the influence of strategy evaluation/ control on the performance of private commercial banks in Ethiopia.

## **1.5. Scope and Limitations of the Study**

The aim of the study is to analyze the effect of strategic management on organizational performance by focusing on private commercial banks in Ethiopia. Although there are 17 private commercial banks in the country with more than 6500 branches distributed across the country, only employees of four selected banks located in Addis Ababa have been considered in this study due to time and budget constraints.

A multitude of internal and external factors can influence the performance of an organization (Cera and Kusaku, 2020). Some of these factors are infrastructure, legal constraints, employee motivation, work environment, management style, organizational culture, training and development. Among these factors only strategic management was considered in this research.

The outcome of the study depends on the quality of data collected which in turn depends on the willingness of respondents to accurately fill out the questionnaire. Furthermore, the sample size of the research is small compared to the number of branches and employees that the banks have.

## **1.6. Significance of the Study**

The different mechanisms through which strategic management can affect the performance of organizations has fascinated researchers. Many scholars have demonstrated that strategic management plays an important role in improving the performance level of organizations (Imane and Driss, 2017). The effect of strategic management on the performance of organizations needs to be critically analyzed in order to determine the effectiveness of different strategic management practices. However, the relationship between strategic management and organizational performance has not been adequately studied especially in the banking sector of Ethiopia.

The purpose of this study is to investigate the effect of strategic management on the performance of organizations by specifically focusing on private commercial banks in Ethiopia. This, it is believed, will give the banks and other related organizations a chance to recognize the role of strategic management in achieving their objectives. And to identify improvement areas while applying strategic management. Moreover, the result of the study can serve as a base upon which further research, which can contribute to the development of the area, can be conducted.

## **1.7. Organization of the Study**

This paper has been organized into five chapters. The first chapter focuses on introducing the research topic followed by research questions, objectives, scope and significance. Chapter two provides a review of previous theoretical and empirical works which were found to be relevant for the study at hand. The illustration of different methods used in investigating the research problems is the concern of chapter three. Chapter four presents a detailed discussion of the analysis of collected data along with interpretation of findings. The final chapter provides a summary of major findings followed by conclusions and major recommendations based on the conclusions.

# Chapter Two

## Review of Related Literature

In this chapter, a review of previous literature in the area of strategic management and organizational performance is presented. First theoretical works that lay the foundation for the topic are assessed. The second subchapter presents different empirical research works which have been found relevant to the study at hand. Then based on the reviewed theoretical and empirical literature, a conceptual framework and research hypotheses are also provided.

### 2.1. Theoretical Review

#### 2.1.1. The Concept of Strategic Management

Many authors have forwarded different definitions of strategic management according to their perspectives. Some of these diverse descriptions are provided as follows: according to Porth (2002) "strategic management is a process of formulation, implementation and evaluation of decisions which enables organizations to define and achieve their mission and to create value." Stead and Stead (2008), on the other hand, defined strategic management as a continuous process for managers to align their organizations to changes in the environment in a way that enables them to develop competitive advantage so as to minimize threats and capitalize on opportunities.

Strategic management is important for organizations because it provides them with a framework of actions required to achieve their goals. Moreover, it helps them to build their capability to prepare for change beforehand and deal with challenges properly. And even if there happens to be unexpected change, organizations that employ strategic management will be in a better position to cope with it since they are equipped with appropriate tools and procedures (Bracker, 1980).

#### 2.1.2. Benefits and Criticisms of Strategic Management

##### 2.1.2.1. Benefits of Strategic Management

The argument regarding the potential influence of strategic management on organizations is ongoing with some authors contending that the benefits that accrue to organizations which apply strategic management outweigh its costs and other authors claiming the opposite. First the potential benefits of strategic management are considered. According to the supporters of the positive influence, strategic management can have financial and non-financial benefits provided that it's implemented properly.

### **A. Financial Benefits**

Compared to organizations that don't implement strategic management, those organizations that do, tend to be more profitable. This can be attributed to several factors such as better capacity to anticipate the future and take appropriate measures to minimize threats and capitalize on opportunities instead of being overtaken by current issues that happen on a day to day basis. Ansof and Sullivan (1993) argue that strategic management enhances the financial performance of an organization by strengthening its market position and improving its competitive advantage. Further, firms that use strategic management tend to have better information about the different aspects within their environment. Thus, they are usually in a better position to respond to the action of competitors.

### **B. Non-financial Benefits**

Strategic management not only has financial benefits but also has non-financial ones (Fred, 2007). Some of these non-financial benefits are:

- Creating an interactive environment where employees at different levels can communicate with each other to prevent and solve problems.
- Ensuring efficient allocation of resources such as time, money, etc.
- Giving employees and managers a central objective to pursue and providing incentives to achieve these goals.
- Creating a positive attitude towards change by increasing awareness about change and thus reducing associated uncertainties.
- Providing management with tools that can be used for performance evaluation and control.
- Helping to instill a sense of discipline among employees etc.

#### **2.1.2.2. Criticisms of Strategic Management**

Having considered the potential financial and non-financial benefits of strategic management, some of the criticism raised by the opposite side of the argument are as follows:

- Uncertainty of the future: strategic management involves an anticipation of the future. However, the future can't be predicted with full certainty. And often times, things happen in an unexpected way that can render strategies irrelevant.
- Cost: Strategic management is usually a lengthy process which requires significant amounts of resources. This can force medium and low sized organizations to shy away from pursuing it.

- Long Term Outcomes: The focus of strategic management is improving the competitive advantage of organizations in the long run. This focus may not be suitable for firms that are facing crisis which require immediate solutions.
- Inflexibility: Strategies create a framework that determines the formal process of an organization for the foreseeable future. The kinds of projects which can be undertaken by the organization will be significantly affected by the strategy. This restricts creativity and flexibility of the organization, contrary to the dynamic nature of the surrounding environment (Robinson, 2005).

#### **2.1.4. The Concept of Organizational Performance**

There seems to be no agreement regarding the definition of performance as many authors have expressed it in several ways. In a definition that relates objectives with results, Didier (2002) argued that organizational performance involves achieving targets that have been assigned with respect to the objectives of an organization. The activities of all organizations are designed to attain some objective. And resources are required to transform these objectives into outcomes. So, the relationship between objectives and outcomes is mediated with resources.

The success of a business depends on its organizational performance which involves its ability to transform plans into action in a way that meets its objective (Randeree and Al Youha, 2009). Similarly, Lebas (1994) stated that performance is future oriented and reflects the specific nature of organizations. Accordingly, a successful organization is one that has a capacity to achieve objectives set by management. According to Sriwan (2004), organizations need to have an objective against which they measure their level of performance. The objective is important to help organizations choose among different activities or projects.

#### **2.1.5. Measuring Organizational performance**

On contentious issues such as organizational performance, with so many writers debating on its appropriate definition, it becomes challenging and important at the same time to determine a suitable measure. With this in mind some of the most common methods used to measure organizational performance are presented next (Carton, 2004).

##### **1. Accounting measures**

Information that is reported on financial statements such as balance sheet, income statement, cash flow statement etc. are the basis of accounting measures. They are further subdivided into

profitability measures, growth measures, leverage, liquidity and cash flow measures and efficiency measures.

## **2. Operational measures**

These measures focus on the non-financial aspect of organizational performance. Some of the variables used as operational measures are the level of customer satisfaction, the capacity of employees and internal process of an organization, etc.

## **3. Market value measures**

These measures depend on the market valuation of organizations which is common among publicly traded companies. Earnings per share, return on shareholders' investment and market value added are some of the variables used in these measures.

## **4. Survival measures**

Survival measures show the capacity of an organization to remain in business for a long period of time. Thus, these measures can be considered as important indicators of long-term performance.

## **5. Economic value measures**

These measures are accounting measures that have been adjusted to take into consideration the effect of cost of capital.

## **6. Balanced Scorecard**

Traditionally, financial methods have been used extensively to measure the performance of organizations. These methods involve analyzing the profit, revenue, asset etc. figures of an organization to determine its level of performance. However, relying solely on financial measures is not recommended since the measures suffer from the following shortcomings (Niven, 2006):

- Inconsistency with current business reality: According to the financial measures, the value of an organization lies on tangible or fixed assets. This doesn't take into account invaluable intangible assets such as the ideas of employees, relationships with customers and suppliers etc.
- Being backward looking: Financial measures provide information about the past performance of an organization. However, good past performance doesn't mean good future performance.
- Functional focus: Financial reports are usually prepared separately for different functional units in an organization. These reports from the different functions are then aggregated to

generate a report for the organization. However, this disregards the tendency of functional units to work together in cooperation.

- **Sacrificing the long term:** Different financial oriented measures can lead to decisions that provide short term gains at the expense of long-term performance. A decision to cut cost in order to overcome current financial constraints without considering the potential ramifications on quality of products or services, customer relationship etc. is a case in point.

To alleviate these shortcomings of financial measures, Robert Kaplan and David Norton developed a new tool of measurement for organizational performance called Balanced Score Card (BSC) in 1993. BSC is a method that combines financial measures, which focus on past performance, with measures of future performance drivers. It is developed from the strategy and vision of an organization (Kaplan and Norton, 1996). The main aim of BSC is creating a balance between financial and non-financial measures of organizational performance. It has four perspectives which are customer, internal processes, learning and growth and financial.

**Customer perspective:** involves determining the specific group of customers that the organization targets, identifying the needs of these customers and evaluating the value that the organization provides to them.

**Internal process perspective:** deals with the efficiency and effectiveness of internal business processes that an organization needs to continuously improve in order to provide value to customers. These can include operations, innovation and after sale services.

**Learning and growth perspective:** this perspective helps to fill the gap between the available and required skill of employees in order to achieve desired level of performance.

**Financial perspective:** this perspective measures whether the objectives and measures of the other perspectives produce desired financial returns.

Due the above stated advantages of BSC over the other methods and with a goal of obtaining a comprehensive measure, the Balanced Score Card method was chosen to measure the performance of organizations in this study.

## **2.2. Empirical Literature Review**

Just like the theoretical literature discussed above, the potential influence of strategic management on organizational performance is a contentious issue in the empirical literature side as well; with strong arguments on both sides. In this empirical literature review both sides of the argument are

provided. First studies that point towards a positive influence of strategic management on organizational performance are considered. After this, research studies which conclude that strategic management has negative or no influence on performance are discussed. These are followed by an exploration of research works which analyze strategic management in Ethiopia. Each of the studies are critically reviewed and potential areas of improvement are indicated according to the author of the study at hand.

### **2.2.1. Positive Relationship between strategic management and organizational performance**

Mohamud, Mohamud and Mohamed (2015) analyzed the relationship between strategic management and organizational performance by focusing on Mogadishu, Somalia. A total of 100 individuals holding both managerial and non-managerial positions at different organizations in Mogadishu participated in the study. The findings indicated that there is a statistically significant positive relationship between strategic management and organizational performance. Based on this finding, the researchers suggested that organizations need to focus on their strategic management to improve employee performance by taking into account internal and external factors that can affect performance. Although this study can be credited for being the first of its kind to be conducted in Mogadishu, Somalia, it mainly suffers from shortcomings associated with its selected method of analysis. The researchers used correlation analysis to meet the objective of the study. However, correlation can only show tendency among variables to move together rather than influences on each other (Frost, 2019). The study at hand, unlike the one mentioned above, utilizes a regression analysis in addition to correlation to better understand the fundamental relationship among the selected variables.

The relationship between strategic management and organizational performance was also investigated by Aremu and Oyinloye (2014) who took a hundred sample of employees from 5 different banks in Nigeria. They concluded that there is a significant positive relationship between the two variables. And that there is a positive correlation between the elements of strategic management (environmental scanning, strategy formulation, strategy implementation and strategy evaluation) on the one hand and organizational performance on the other. Based on these findings, the researchers argued that the success of a strategic management process doesn't solely depend on the planning stage. Because an appropriately formulated strategic plan can fail if it is not executed properly which can result in wastage of time, money and other resources. Thus, is it

important to focus on the entire process of strategic management and not just one of its elements. The major limitation that was identified was the fact that the researchers didn't properly explain the mechanism for choosing the five banks selected in the study. At one point, it is stated that the banks were selected randomly. However, the use random sampling method can prove to be wanting especially if the elements within a population have different characteristics. This issue is addressed in the study at hand by using a combination of systematic and stratified sampling methods.

Phina (2020) investigated the effect of strategic management on organizational performance with a particular focus on manufacturing industries in south-east Nigeria. A sample of 300 employees selected from a population of 1000 participated in the study. It concluded that all the processes of strategic management such as strategic objective, strategic formulation, strategic implementation and strategic evaluation have a significant influence on the performance of organizations. The study recommended that strategic objectives should be in line with organizational objectives and that lower level managers should be more involved in the strategic formulation process. This research work is commendable for having a comprehensive view of the elements of strategic management. However, the research only answers the question whether strategic management has a significant influence on strategic management and doesn't proceed to determine the magnitude of the influence of the different elements. Such knowledge would have an invaluable policy implication for organizations in terms which aspects of strategic management require the primary attention of managers and which ones should be considered secondary. The current study addresses this issue by analyzing the potential influence that strategic management could have on organizational performance.

A study conducted by Kennedy (2020) examined the effect of strategic management practices on the performance of travel and tour agencies of Nairobi, Kenya. To achieve the objectives of the study, the researcher forwarded three variables as measures of strategic management i.e. strategic planning, strategic partnership, strategic expansion and customer focus. The target population for the study involved 76 managers from 19 selected agencies. The findings indicate that strategic planning, strategic partnership and strategic expansion are significantly positively related with performance. However, the author also pointed out that there is a tendency among the agencies not to implement strategic management practices completely. To overcome this challenge, the study recommended that managers need to encourage strategic planning practices and that they need to

come up with new ways of managing their customers. While this study produced important results that strategic management has a positive influence on organizational performance, it suffers from a conceptual drawback. The researcher presents strategic planning, strategic expansion, strategic partnership and customer focus as variables that can be used to measure strategic management without sufficient evidence regarding their effectiveness as measurement tools. Furthermore, the use of customer focus to measure strategic management seems to overlap with the notion of using customer perspective as a measure of the non-financial performance of organizations (Kaplan and Norton, 1996).

Likewise, Imane and Driss (2017) applied a literature review approach to analyze the same issue of the interaction between strategic management and organizational performance. They concluded that strategic management contributes to performance. However, they argued that the link between the two variables depends on another condition which is the availability and appropriate utilization of strategic information which they believed would provide competitive advantage to organizations. Moreover, the researchers sought to find out the source of mistakes in making strategic decisions. In this respect, they stipulated that most of the mistakes in strategic management come from inadequate understanding of the environment. Hence, further indicating the importance of information. The main flaw identified from this study is the approach used to answer the research question. As stated above the researchers used a literature review approach to investigate the relationship between strategic management and organizational performance. However, a topic of such importance and complexity requires the use of more advanced methods of analysis than reviewing literature which is usually used in research works to develop a framework for a topic before proceeding to other methods (Creswell, 2014). The study at hand uses the more appropriate quantitative research approach to analyze the relationship between strategic management and organizational performance.

The influence of strategic management on the performance of banks and other financial institutions has also been explored by researchers. For example, Afande (2013) analyzed the effect of strategic management practices on the performance of financial institutions by focusing on Kenya post office saving bank. The finding of the study indicates that there is a significant positive relationship between strategic management practices of the bank and its performance as measured by financial indicators such as net income, total revenue etc. Based on these findings, the author proposed that the bank should focus on a number of strategic management practices such as cost reduction,

improving customer service, operational efficiency, building its brand image etc. Despite its contribution to the body of knowledge in the relationship between strategic management and organizational performance in the banking industry this study suffers from area of focus. The entire paper focuses on only one bank i.e. Kenya post office saving bank without adequate evidence as to why that particular organization has been selected. A sample of banks that can better represent the banking sector of the country would have been more appropriate. In order to overcome this challenge, the current study selects four banks from a list of sixteen private commercial banks using systematic and stratified sampling methods.

### **2.2.2. The Use of Non-financial tools to measure the relationship between strategic management and organizational performance**

In exploring the relationship between strategic management and organizational performance, it is imperative to incorporate non-financial aspects of organizational performance instead of solely focusing on financial issues. Financial measures of organizational performance such as return on investment (ROI), return on asset (ROA), earnings per share (EPS) etc. are usually criticized for being backward looking. Because they show the performance level of an organization based its activities in the past period (Kaplan and Norton, 2001). Nowadays, organizations are shifting their attention to more innovative measures of organizational performance such as balanced scorecard (BSC), total quality management (TQM), etc. which are credited for showing the capacity of an organization to achieve high level of performance in the future. The use of non-financial measures in strategic management not only contributes to organizational performance but also to sustainable development as pointed out by Rafiq et al. (2020). When non-financial measures are applied, instead of traditional measures, that focused on short term financial goals, employees show a tendency to be more responsible towards environmental implications of their actions. This in turn ensures the sustainability of growth that has been achieved.

Balanced Scorecard (BSC) is one tool used in measuring organizational performance. It has four perspectives which are financial, customer, internal processes and learning and growth. These perspectives are interrelated with one another in a sequential order. Learning and growth leads to better internal processes which in turn lead to higher customer satisfaction which in turn improves financial performance. Thus, the use of BSC as a non-financial tool to measure organizational performance enables firms to convert strategic objectives into performance measures to evaluate the effects of implemented strategies and to give feedback accordingly (Kairu et al., 2013).

Qarashay and Alzubi (2018) analyzed the relationship between strategic management and organizational performance using the balanced scorecards approach at Al Khalidi Hospital and Medical Center in Amman, Jordan. The balanced scorecard approach was chosen because, according to the authors, the traditional accounting based financial approaches don't give a comprehensive measure of performance. A sample of 32 middle and top management was derived from a population of 35. The study concludes that strategic management has a positive effect on organizational performance and that the balanced score card approach is an appropriate tool to measure performance. Thus, in order to improve performance, organizations need to work on lowering cost by focusing on expenses, lower employee turnover through motivation and incentive schemes, build customer satisfaction by improving the quality of service and all these should be done by making sure that the focus of the organization is balanced among all issues. Although this study is an improvement compared to previous mentioned studies in terms using a Balanced Scorecard approach to measure performance, it still has a limitation associated with narrow focus. The research work focuses on one department of a given medical center which limits the generalizability of the findings. This is because conditions which are prevalent in one organization may be non-existent in others. Thus, a sample of institutions would have given a more reliable result.

In Kenya Suva (2017) conducted a research on the effect of strategic management on the non-financial performance of both domestic and international non-governmental organizations. From a target population of 90 employees, holding different managerial and operational positions, 64 were selected to be included in the sample of the study. In the conclusion, the researcher reports that strategic management significantly influences the non-financial performance of non-governmental organizations. Therefore, to attain high level of non-financial performance, organizations need to implement strategic formulation, implementation and control. This study has limitations related to comprehensiveness in measurement. The major focus of the study is to determine the relationship between strategic management and non-financial performance of NGOs. This indicates that the study focuses only on the non-financial aspect of performance. But a measurement of organizational performance is complete only when it includes both financial and non-financial elements. The two elements can be considered as two parts of a puzzle that can make sense only when both are in the right place. Focusing on only the non-financial wing of performance while disregarding the financial one is repeating the same mistake of previous

research works in reverse; which were criticized for having shallow and short-term focus. Thus, the author of the study aims to overcome this issue by applying both financial and non-financial measures of organizational performance.

Similarly, Aboramadan and Borgonovi (2016) analyzed non-governmental organizations in the territory of Palestine to determine the effect of strategic management practices on performance. A sample of 79 NGOs was randomly selected from a total population of 99. The researchers showed that strategic management practices have a positive effect not only on financial performance but also on non-financial performance of non-governmental organizations. Consequently, they recommended the use of strategic management to enhance the performance of non-governmental organizations. Although this study is an improvement over the one immediately stated before it in terms of applying both aspects of organizational performance, it still has some limitations associated with sampling. The study used random sampling to select the NGOs included in the study. But as stated above random sampling can have serious implications on the representativeness of data from different portions of a population. As previously pointed out the use of a combination of stratified and systematic sampling has enabled the study at hand to overcome this challenge.

### **2.2.3. Negative or No influence of strategic management on organizational performance**

Up to this point, studies that show positive relationship between strategic management and organizational performance were considered, which is the majority case. However, there are also research works, although not as numerous as the previous case, that report a negative relationship between the two variables. Some of these studies are presented next.

In an examination of the effect of strategic management on organizational growth and development of manufacturing firms in Anambra state in Nigeria, Muogbo (2013) found that strategic management isn't a common business practice in the state especially among manufacturing firms. To reach this conclusion, the researcher analyzed data collected from sixty-three respondents who work at twenty-one different manufacturing firms in Anambra state of Nigeria. Despite his conclusion, the researcher acknowledged that if implemented properly, strategic management could play an important role in improving the competitive advantage of organizations in general and manufacturing firms in particular. Thus, to overcome this challenge, the researcher proposes

that the concept of strategic management needs to be included in school curriculum to introduce students with the notion from an early age. The major shortcoming identified from this study is inconsistency. The research states that strategic management can improve the performance of manufacturing organizations which goes against its initial finding that strategic management isn't practiced commonly within the manufacturing sector. In the study at hand, the issue of consistency is addressed with an attempt to maintain the flow of ideas throughout research.

Correspondingly, a study conducted by Kasera (2017) determined that there is a negative relationship between strategic management and organizational performance. The research aimed to analyze the effect of strategic management on organizational performance in the health sector of Nairobi county, Kenya. To achieve the research objective, the study forwarded research questions that examine the effects of strategic thinking, strategic planning and strategic implementation on organizational performance. The sample for the study was extracted from a population of managerial staff at health institutions. Results show that strategic thinking has a weak relationship with performance while strategic planning and implementation have negative relationships. The study argues this unexpected result signifies that there are other unexplored factors that may have an influence on organizational performance of health institutions of the country. Firstly, this research work needs to be applauded for not failing to report a result which goes against the generally accepted notion about the relationship between strategic management and organizational performance. The main reason cited by the study for this unexpected result was the presence of unknown influencers of organizational performance. However, the study doesn't give an indication of what these unexplored factors are which would have given a complete picture on the topic.

Edapal (2017) analyzed the effect of strategic management practices on the level of growth of cement factories in Kenya. The study identified three elements of strategic management namely strategic competition, strategic differentiation and strategic technology. A sample size of 55 employees selected from a population of 75 participated in the study. The research concluded that strategic competition and differentiation positively affect business growth. In contrast, strategic technology was found to have a negative influence on organizational growth. Based on this finding, the study recommended that organizations need to focus on strategic competition and differentiation. Although this study maintains its flow between findings and recommendations, it fails to provide sufficient basis for using strategic competition, strategic differentiation and

strategic technologies as elements that constitute strategic management. In the current study, the three elements (strategy formulation, strategy implementation and strategy evaluation/ control) used were selected based on sufficient theoretical and empirical evidence.

#### **2.2.4. Strategic Management Studies in Ethiopia**

There are a handful of studies that have been conducted in Ethiopia on the topic of strategic management. Wubishet (2018) assessed the strategic management practices of private commercial banks in the country and the challenges faced by these banks. From a population of employees of private commercial banks, a sample size of 246 was selected. The researcher concluded that the banks give disproportionately more attention to strategy formulation as compared to strategy implementation and evaluation/ control. And while practicing strategic management these banks faced challenges such as failure to timely revise strategic statements, failure to set performance indicators, inadequate communication of outcomes etc. Thus, it was suggested that these banks need to focus on all elements of strategic management process and to introduce strategic audit to systematically analyze activities. Despite its best effort to comprehensively analyze the strategic management practices of private commercial banks in Ethiopia, this paper suffers from a shortcoming which is its failure to investigate the potential influence of these strategic management practices on the performance of the banks. The author of the study at hand believes that the attempt to consider the impact of the three elements of strategic management on organizational performance in the current study helps to address this shortcoming.

Similarly, Amelework (2015) also conducted a research with an aim to analyze the strategic management practices of the Ethiopian Insurance Corporation. To achieve the objective of the study, a sample size of 254 was selected from a target population of 701 managerial and non-managerial employees of the corporation. The findings indicate that the environmental scanning process of the company aren't comprehensive, some goals weren't measurable and weren't clearly communicated to employees. To alleviate these shortcomings, the researcher recommended to include the input of all stakeholders in environmental analysis, to engage employees in developing strategies, to develop goals that lend themselves to measurement and to create an inclusive strategic management process. This study can be criticized on the same ground as the one mentioned immediately before it i.e. no attempt to examine the connection between strategic management and organizational performance. Furthermore, the study focuses only on one

organization (Ethiopian Insurance Corporation) which makes it difficult to generalize its findings beyond the aforementioned organization.

Haimanot (2017) examined the Effect of strategy implementation on organizational performance by focusing on Bank of Abyssinia (BOA). For the purpose of the study, a sample size of 197 was selected from a target population of 392 employees who work in Addis Ababa. After analyzing primary and secondary data collected using different methods, the researcher concluded that BOA has a clear strategy that has been well articulated to employees. However, there seems to be disagreement regarding the approach of leadership. Finally, the author suggests that BOA should communicate factors related to leadership style so as to bring employees and management on the same page to achieve the objective of the bank. Although this study is an improvement over the above stated ones in terms of analyzing the potential influence on organizational performance, it still can be criticized for considering one element of strategic management which is strategy implementation. As it is known strategic management is a wide concept involving a lot of elements with a multitude of influences. Thus, considering only one element while disregards the potential role of other elements wouldn't give a full picture of the issue. This issue is overcome in the study at hand by considering all the three elements of strategic management.

### **2.3. Identified Research Gap**

The review of literature revealed that there are a multitude of theoretical and empirical works related to the topic at hand in African countries as well as across the globe. On the contrary, when it comes to the case of Ethiopia, a limited number of studies have been conducted on strategic management specifically in the banking sector of the country. And those research works that have been undertaken in the banking sector of the country, focus on examining the strategic management practices of banks without considering their potential effect on performance (e.g. Wubishet, 2018). In addition, those that take into consideration these implications focus on the effects of a single element of strategic management such as strategy implementation, without incorporating all its elements (e.g. Haimanot, 2017). However, no research work was found that addresses the effect of strategic management (taking all of its elements into account) on the performance of private commercial banks in Ethiopia. Therefore, this raised a need to conduct a study in the area to fill this gap and further explore the relationship between the two variables.

## **2.4. Research Hypothesis**

In hypothesis testing, the null hypothesis ( $H_0$ ) includes a statement that the researcher doesn't expect and the alternative hypothesis ( $H_A$ ) includes a statement that reflects the researcher's expectation (Studenmund, 2017). Based on the reviewed literature the following hypotheses are developed.

### **Hypothesis 1**

$H_{10}$ : Strategy formulation doesn't have a significant influence on organizational performance of private commercial banks in Ethiopia.

$H_{1A}$ : Strategy formulation significantly influences the performance of private commercial banks in Ethiopia.

### **Hypothesis 2**

$H_{20}$ : Strategy implementation doesn't have a significant effect on organizational performance of private commercial banks in Ethiopia.

$H_{2A}$ : Strategy implementation has a significant influence on the performance of private commercial banks in Ethiopia.

### **Hypothesis 3**

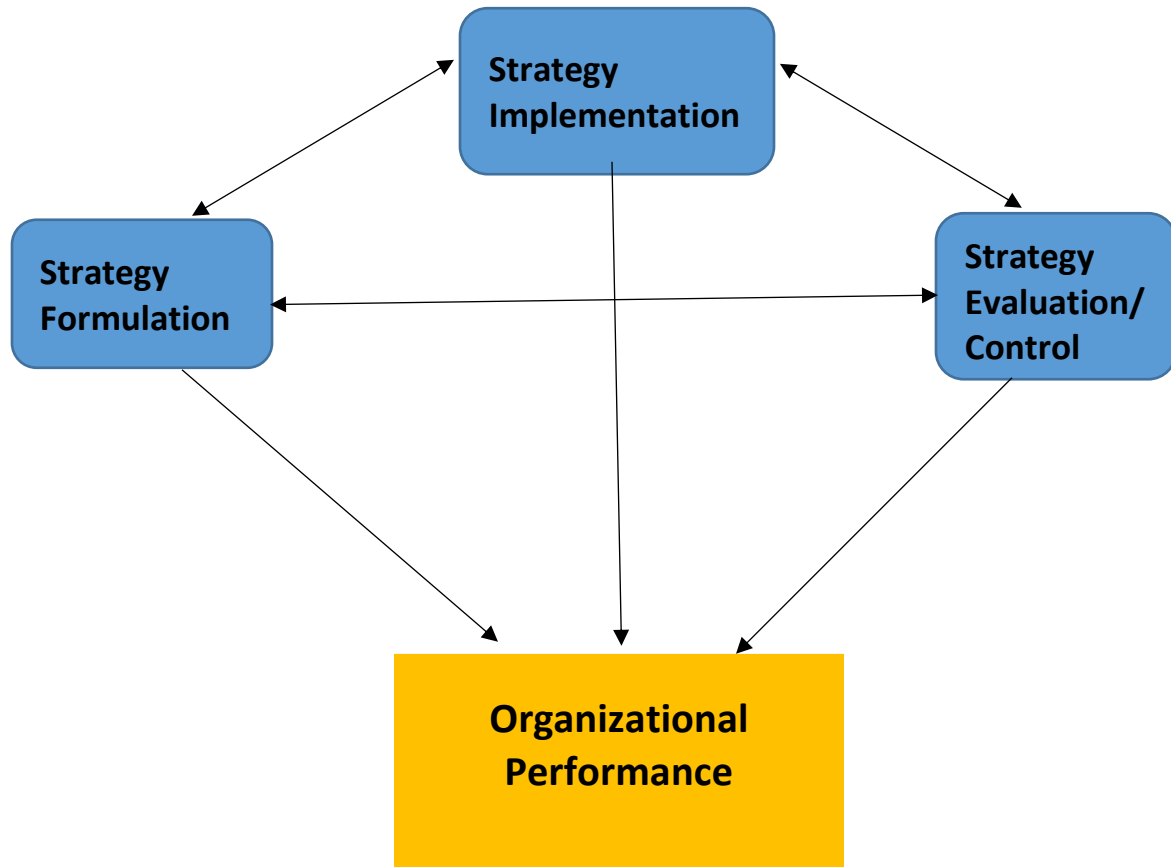
$H_{30}$ : Strategy evaluation/ control doesn't have a significant effect on organizational performance of private commercial banks in Ethiopia.

$H_{3A}$ : Strategy evaluation/ control has a significant influence on organizational performance of private commercial banks in Ethiopia.

## **2.5. Conceptual Framework**

Conceptual framework is a foundation of a research problem and it stems from the theoretical framework and emphasizes the sections that will become the basis of the study (Kumar, 2011). For this study, the conceptual framework focuses on the relationship between strategic management and organizational performance. As this study is aimed at investigating the effect of strategic management on the performance of private commercial banks in Ethiopia, a variation of a model developed by Phina (2020) is applied. The model proposes that the elements of strategic management which are expected to be related with each other contribute to the performance of organizations as presented in figure 2.1 below.

Figure 2. 1: Conceptual framework of the study.



Source: Adopted with modification from Phina (2020).

# Chapter Three

## Methodology

The study analyzes the influence of strategic management on organizational performance of private commercial banks in Ethiopia. In this chapter the research design, description of the study population, the process of selecting a sample from the population, data collection methods, the variables which are utilized and the model employed to assess the relationship among variables are presented.

### 3.1. Research Design

There are three types of research approaches i.e. quantitative, qualitative and mixed approaches (Creswell, 2014). Among the three, the one that was selected for this study is quantitative approach which is an approach that analyzes the relationship among variables to test theories.

Within the above stated research approaches, an appropriate research design must be selected. Research design can be defined as a structure of a study. It describes the process of formulating hypothesis, selecting relevant variables, selecting representative sample, collecting and analyzing data. The most important characteristics of research design is that it focuses on balancing the need to maintain the relevance of a study with the need to maintain cost within a reasonable bound (Kothari, 2004).

For this study, a survey research design is selected. This design was selected because of its capability to describe the nature and characteristics of a population by examining a sample of that population (Creswell, 2014). Using a survey research design has many advantages such as providing demographic data that describes the composition of the sample, obtaining data from a large sample of a population at minimum cost, being relatively easy to develop and administer, etc. (Kothari, 2004). The survey for the study at hand is cross-sectional which is a type of survey where data is collected at one point in time without repetition (Sekaran, 2003).

The features of survey research design, as stated above, were found to be commensurate with the goal of the study which aimed to investigate the effect of strategic management on organizational performance by focusing on private commercial banks in Ethiopia. To achieve this objective and to find answers for the research questions, the study employed quantitative methods which make use of statistical and numerical analysis of collected data to provide objective conclusions.

### 3.2. Study Population

According to Kothari (2004), a population involves all elements which are under consideration or it involves the listing of all items that a researcher wishes to investigate. As it has been stated in the introduction section of this study, the banking sector was selected as an area of focus among the different financial institutions in Ethiopia due to its dominance as measured by important indicators such as assets, deposits, loans and advances. And among the banks in the country, only private commercial banks are considered, excluding public banks, because the need to urgently improve performance by overcoming many challenges is more important for the private banks compared with the public banks. This is because the public banks have long years of experience, large capital and state support which can protect them from different challenges such as foreign competition. As of June 30, 2020, the number of private commercial banks operating in Ethiopia was 16. This number includes banks with a wide range of operational experience.

Among the 16 private commercial banks in Ethiopia, four are selected using a combination of stratified sampling and systematic sampling methods which involves selecting sample members within each stratum based on a random starting point and picking every  $i^{\text{th}}$  element using a fixed interval (Kothari, 2004). The stratification of the banks is based on their performance measured by their level of profitability. Thus, the 16 private commercial banks were first listed based on their level of profit from the most profitable to the least one. Then they were categorized into four strata in a way which ensures that banks with similar level of performance are included within the same stratum.

Table 3. 1: List of Private commercial banks in Ethiopia arranged based on profitability.

Strata	S.N.	Banks	Profit Before Tax (June 30, 2020) In thousands of Birr	Selected Organization
ONE	1	Awash Bank	3,599,000.00	Dashen Bank
	2	Dashen Bank	1,789,930.00	
	3	Cooperative Bank of Oromia	1,420,000.00	

	4	Nib International Bank	1,309,631.00	
TWO	5	Hibret Bank	1,128,201.00	Bank of Abyssinia
	6	Bank of Abyssina	1,081,408.00	
	7	Wegagen Bank	1,077,453.00	
	8	Oromia International Bank	1,065,078.00	
THREE	9	Zemen Bank	998,339.00	Lion International Bank
	10	Lion International Bank	780,639.00	
	11	Berhan International Bank	707,486.00	
	12	Abay Bank	640,295.00	
FOUR	13	Bunna International Bank	582,041.00	Debub Global Bank
	14	Debub Global Bank	376,243.00	
	15	Addis International Bank	274,234.00	
	16	Enat Bank	239,555.00	

Source: Own Survey, 2021.

Since equal number of elements are involved in each stratum, one bank is selected from each which ensures the proportionality of the sample. Hence, from the first stratum, Dashen Bank (2<sup>nd</sup> bank) is randomly selected. After that every 4<sup>th</sup> bank (X+4) is selected to be included in the sample. Thus, from the second stratum, Bank of Abyssinia (6<sup>th</sup> bank) is selected. Similarly, from the third stratum, Lion International Bank (10<sup>th</sup> bank) is selected. Finally, from the fourth stratum, Debub Global Bank (14<sup>th</sup> bank) is selected.

### 3.3. Sample size Determination and Sampling Technique

The number of elements of the population which are selected to be included in the sample is called sample size. In the process of determining the sample size, it is crucial to make sure that the sample chosen is optimal. Otherwise it might be too small to represent the population or it might be too large and become unmanageable for a researcher. An optimal sample size satisfies the requirements of efficiency, representativeness, reliability and flexibility (Kothari, 2004).

The sample size for this study is determined from the target population i.e. the four selected private commercial banks in Ethiopia (Dashen Bank, Bank of Abyssinia, Lion International Bank and Debub Global Bank).

Table 3. 2: List of four selected private commercial banks along with their number of employees

Strata	Banks	No. of Employees
One	Dashen Bank	6116
Two	Bank of Abyssinia	6700
Three	Lion International Bank	2820
Four	Debub Global Bank	1460
<b>Total</b>		17,096

Source; Own Survey, 2021.

The sample size for this study was computed using the following formula provided by Yamane (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where: n = The sample size

N = The population size

e = The level of precision

Hence, with level of precision equal to 5% the sample size for the study becomes 391. This sample is distributed among the four banks proportionally according to their number of employees in the population.

Table 3. 3: Sample size determination

Strata	Banks	No. of Employees	Percentage	Sample
One	Dashen Bank	6116	35.77%	140
Two	Bank of Abyssinia	6700	39.19%	153
Three	Lion International Bank	2820	16.50%	65
Four	Dejub Global Bank	1460	8.54%	33
<b>Total</b>		17,096	100.00%	391

Source; Own Survey, 2021.

Sampling can be defined as a process of selecting a small number of elements from a larger group or population in order to make generalizations about the larger group. The purpose of sampling is different in qualitative and quantitative research. In qualitative research the emphasis is on getting an in-depth information. On the other hand, drawing inferences about the population from which the sample has been selected from, is the focus of quantitative research (Kumar, 2011).

The sampling technique for this study used a combination of stratified sampling and systematic sampling. Stratified sampling is a type of sampling which involves grouping of elements of the population into homogenous groups or strata (Babbie, 2008). In this study, private commercial banks were arranged according to their performance. Thus, the banks were grouped into four strata based on their level of profit. Among the four banks in the first stratum, the second bank was randomly selected. And the others were selected by picking every 4<sup>th</sup> element starting from the first. The randomness of this sampling process is ensured by selecting the first sample member on a random basis (Kothari, 2004).

### 3.4. Data Collection Methods

In order to gather necessary information, both primary and secondary sources of data collection were used in the study. The primary data was collected using structured questionnaires which are

types of questionnaires that provide all respondents with similar questions that have been prepared beforehand and presented in the same order (Kothari, 2004). These types of questionnaires were selected because they are easy to answer for respondents and also because they simplify the task of analyzing the collected data for the researcher. In order to complement primary data, secondary sources of data have also been used in the study. These data were obtained from organizational publications and from website sources.

The questionnaire that was used to collect primary data involves different types of questions such as general information questions which inquire about respondent's demographic data, Rating scale questions which ask respondents to rate different issues based on their opinion and Likert scale questions that range from "Strongly disagree" to "Strongly agree". The responses of both the rating and Likert scale questions range from 1 to 5. This method has been selected because it is simple to construct and the responses from this scale are easy to quantify and to analyze statistically which makes it an appropriate method for the study (Kumar, 2011).

The questionnaire was adopted from AMCES, Mustafa (2012) and ADP (2021). It is attached in the annex section and is categorized into five parts. The first part presents general questions regarding the personal characteristics of respondents like gender, age, sex, educational background, etc. Part two to part five include questions that address the objective of the study. The second part deals with strategy formulation issues. The third one focuses on measuring the practice of strategy implementation in the selected organizations. Analyzing the process of strategy evaluation/ control is the focus of the fourth section. The final section (section five) measures organizational performance in the selected organizations.

### **3.5. Description of Variables**

The aim of this study is to analyze the effect of strategic management on organizational performance. To achieve this objective, different variables have been used.

#### **3.5.1. Dependent Variable**

A variable that is a result of another variable or that is a consequence of another variable is called a dependent variable (Kothari, 2004). In this study, the dependent variable is organizational performance which can be defined as the ability of an organization to produce outputs which enables it to achieve its objectives and meet the needs of customers by utilizing resources efficiently (Peterson, Gijbsbers and Wilks, 2003). In order to measure organizational performance,

a balanced scorecard (BSC) method is used. BSC is a method that combines both financial and non-financial measures in order to have a balanced understanding of organizational performance (Kaplan and Norton, 1996). Consequently, the dependent variable in this study (organizational performance) along with indicators which are used to measure it are presented below:

**Dependent Variable: Organizational Performance**

**Indicators: Financial and Non-Financial Performance**

*Financial Performance:*

- Financial goals
- Profitability

*Non-financial Performance:*

- Internal perspective
- Customer
- Learning and growth

**3.5.2. Independent Variables**

Variables that cause a change or influence other variables are called independent variables (Creswell, 2014). The independent variables of this research are the elements of strategic management (strategy formulation, strategy implementation and strategy evaluation/ control). Thus, the independent variables for this study along with their particular indicators are:

**Strategy Formulation:** is the first step in strategic management process which involves a wide range of activities ranging from developing a mission statement to choosing the right strategies among a set of available choices. To measure strategy formulation, the following indicators are used:

- Vision Statement
- Mission Statement
- Understanding Values
- SWOT Analysis
- Establish Long Term Objectives
- Generate Strategies
- Selecting Strategies to Pursue

**Strategy Implementation:** is a stage where strategies that have been developed in the previous stage are transformed into actions. To measure this process, the following indicators are utilized:

- Policy Support
- Financial Capacity
- Motivation and Ownership
- Board Support
- Organizational Structure
- Open to Change
- Human Resources

**Strategy Evaluation/ control:** is a stage of analyzing the execution of strategies so as to take corrective actions when necessary. To measure this variable, the following indicators were used:

- Assessment
- Measure Performance
- Identify Where Corrective Action is Necessary
- Assess Effect of Change/Participation
- Moving Beyond Evaluation

### **3.6. Model of the Study**

In order to determine whether or not there is a significant positive relationship among the elements of strategic management in private commercial banks in Ethiopia, a correlation analysis was applied. This method of analysis is selected because it is used to test the existence of a relationship between or among variables (Kumar, 2011). Thus, the model for the correlation analysis of the study is as follows:

#### **Corr (X1, X2, X3)**

Where: X1 = Strategy Formulation

X2 = Strategy Implementation

X3 = Strategy Evaluation/ Control

Furthermore, the three research hypotheses propose that the specific elements of strategic management influence the performance of private commercial banks in Ethiopia. The appropriate model in this case is a multiple regression analysis since the aim is to test the existence of a causal

relationship between one dependent variable and multiple independent variables (Kothari, 2004). Consequently, the regression model of the study is:

$$Y = \alpha + \beta X_1 + \beta X_2 + \beta X_3$$

Where: Y = Organizational performance

X1 = Strategy Formulation

X2 = Strategy Implementation

X3 = Strategy Evaluation/ Control

### **3.7. Data Analysis**

After necessary data is collected from primary and secondary sources the next task is to analyze the collected data. First, the reliability and validity of the instruments employed in the study is ascertained. In order to have a better understanding of the relationship among the three elements of strategic management (strategy formulation, strategy implementation and strategy evaluation/control) a correlation analysis was conducted. The objective of the study is to analyze the effect of strategic management on organizational performance. As a result, a regression analysis was used here since this kind of analysis is best suited to statistically determine the presence of a causal relationship among a dependent variable and a set of independent variables (Kothari, 2004). The regression analysis was conducted using the Statistical Package for Social Sciences (SPSS version 25).

### **3.8. Ethical Consideration**

Many disciplines, professions and institutions have their own ethical codes that promote their objectives. Similarly, a research project must be conducted within the framework of overall research code of conduct that outlines the process of undertaking research (Kumar, 2011). Accordingly, the researcher conducted the study by adhering to the general principles of research ethics. During data collection process, the purpose of the study was first clearly disclosed to respondents. They were communicated about the confidentiality of the information they provide. Data was collected from respondents after getting their consent for the process. Furthermore, the researcher made an effort to follow the guidelines of the university and the advisor's opinion.

# Chapter Four

## Findings and Discussion

In this chapter the analysis and discussion of findings from data collected from questionnaires with the aim of evaluating the effect of strategic management on organizational performance of private commercial banks in Ethiopia are presented. Out of the sixteen private commercial banks in Ethiopia, data was collected from four, which were selected using a combination of stratified and systematic sampling methods. The collected data was loaded into SPSS Version 25 software to perform different statistical operations such as correlation and regression analysis. The discussion begins by presenting the response rate of questionnaires which is followed by demographic statistics of respondents such as gender, educational background, name of organization (bank) that they are employed in etc. Reliability, validity, correlation and regression analysis are also part of this chapter.

### 4.1. Response Rate

In order to collect data to achieve the aim of the study, questionnaires were distributed to employees of the four selected banks both at branch and head office departments. A total of 391 questionnaires were distributed to employees. Out of this, 373 were returned. Among those questionnaires that have been returned, 8 were discarded because they were either not properly filled or contained missing answers. The response rate of questionnaire for the study is presented in the table below.

Table 4. 1: Questionnaire response rate

Sample	Number	Percent
Distributed Questionnaire	391	100%
Returned Questionnaire	373	95%
Discarded Questionnaire	8	2%
Workable Questionnaire	365	93%

Source: Own survey, 2021

## 4.2. Description of Respondents

The questionnaire of the study was distributed to the employees of the four banks. The demographic profile of respondents in terms of gender, age, educational background, name of organization, years of employment and current organizational position is summarized in table 4.2. A discussion of each demographic variable of respondents is presented after the table.

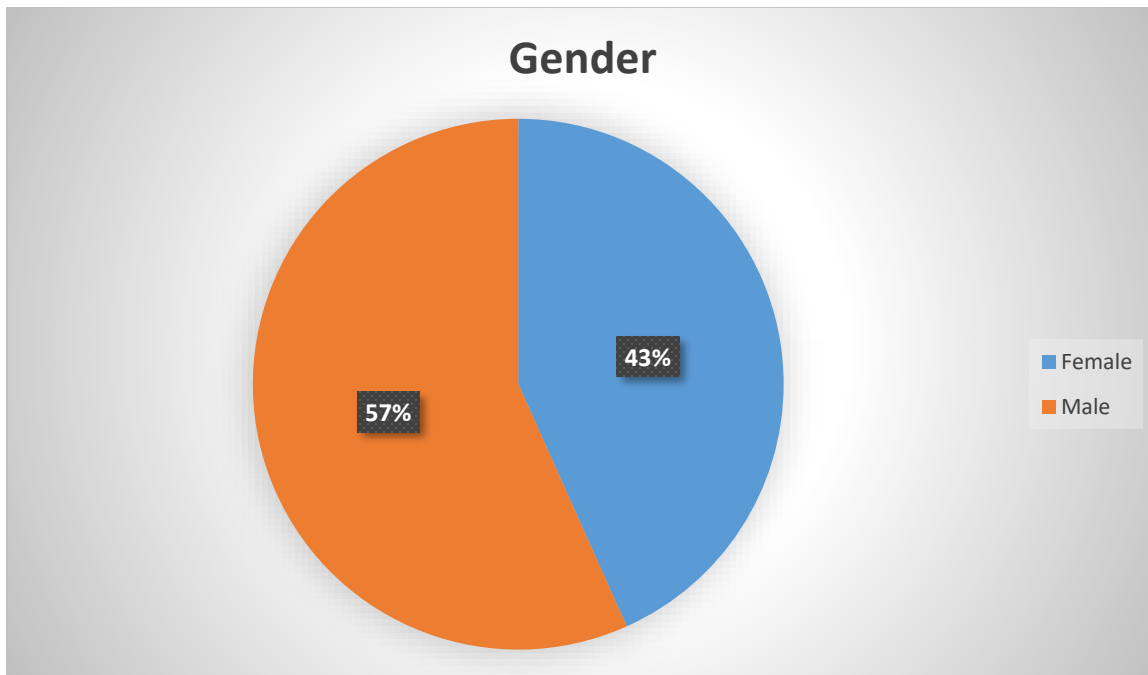
Table 4. 2: Demographic profile of respondents

S. N	Characteristics	Categories	Frequency	Percent
1	Gender	Female	158	43.3
		Male	207	56.7
2	Age	18-30 years old	237	64.9
		31-45 years old	116	31.8
		46-60 years old	12	3.3
		above 61 years old	0	0
3	Educational Background	College Diploma	5	1.4
		BA Degree	271	74.2
		Post graduate degrees	89	24.4
4	Name of bank	Dashen Bank	130	35.6
		Bank of Abyssinia	141	38.6
		Lion International Bank	62	17
		Debab Global Bank	32	8.8
5	Years of Service	Less than one year	81	22.2
		1 – 5 Years	180	49.3
		6 – 10 Years	74	20.3
		More than 10 Years	30	8.2
6	Current Position	Clerical & non-managerial	233	63.8
		Lower Management	73	20
		Middle Management	53	14.5
		Top Management	6	1.64

Source: Own Survey, 2021

## 4.2.1. Gender

Figure 4. 1: Gender distribution of respondents

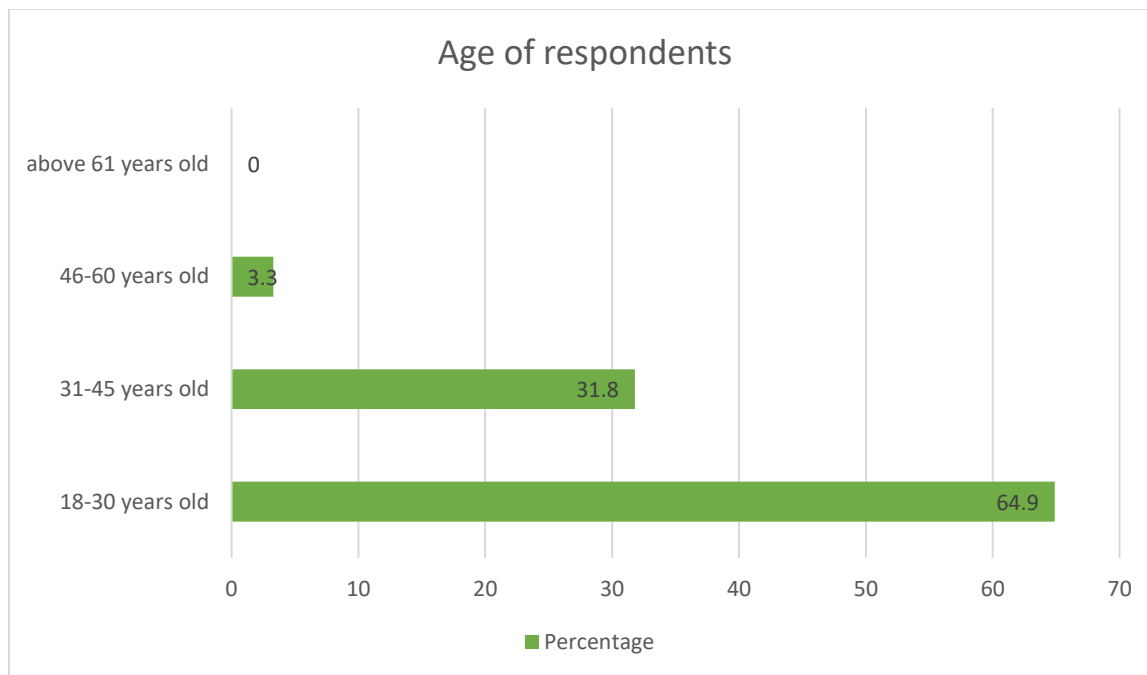


Source: Own Survey, 2021.

As it can be observed from figure 4.1, the majority of respondents in the survey are male with a frequency of 207 (56.7%) and the remaining 158 are female constituting 43.3%. This figure reflects that the workforce of banks is dominated by male employees. The fact that the difference between the two genders in the banks has reduced as compared to what has been reported by previous researches (e.g. Wubishet, 2018) shows that the banks have come a long way in narrowing the gender gap in their workforce. But they still have a long way to go to ensure gender balance in their workforce which in turn can enable the banks to reap the benefits associated with having a diversified labor force such as improving creativity, customer relationships and organizational image (Özbilgin and Tatli, 2008). These in turn can contribute to organizational performance of the banks.

## 4.2.2. Age

Figure 4. 2: Age distribution of respondents

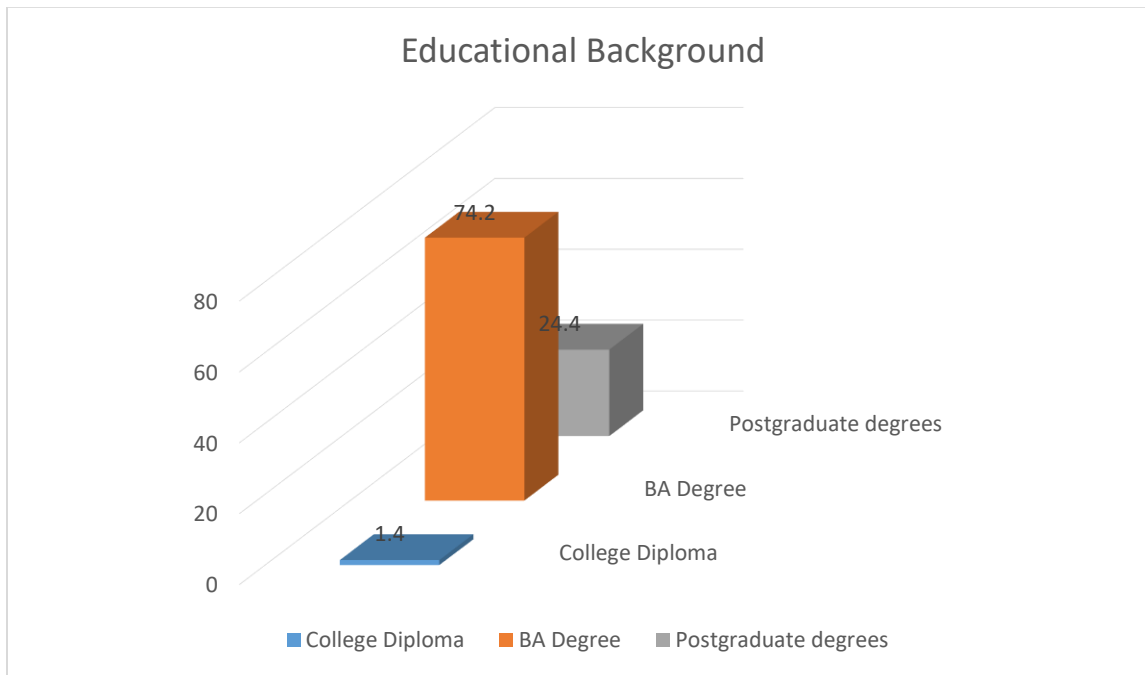


Source: Own Survey, 2021.

From the total number of respondents in the study, the largest age proportion (64.9%) lies within the range of 18-30 years old with a frequency of 237 followed by the second largest category of 31-45 years old that consists of 116 (31.8%) respondents. The third and fourth age categories involve very small number of respondents with 3.3% and 0% respectively. Together the first two categories are comprised of 96.7% of respondents which indicates that the majority of survey respondents are young employees of banks. Considering that almost all respondents are below the age of 45, the banks are disproportionately staffed by a relatively young workforce which has its own advantage in terms of speed, energy and agility but the downside of this could be lack of experience, judgment and work ethic (Robbins and Judge, 2013).

### 4.2.3. Educational Background

Figure 4. 3: Educational background of respondents.

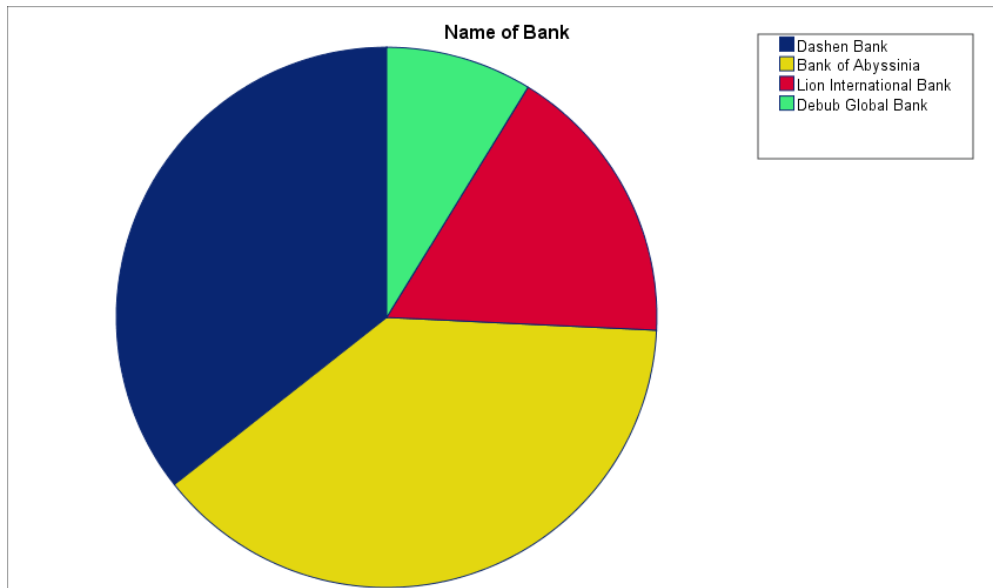


Source: Own Survey, 2021.

The educational background of respondents shows that the majority 271 (74.2%) are holders of BA Degree followed by 89 (24.4%) who have post graduate degrees. The rest of the respondents (1.4%) have college diploma. The fact that the majority of employees are BA degree and post graduate degree holders signifies that the educational status of most workers in the banks is in a good state. However, to further improve their performance, the banks need to invest more on building the skill and capability of their employees by offering opportunities for further education, providing on the job and off the job training etc.

### 4.2.4. Name of Bank

Figure 4. 4: Classification of responders by bank.

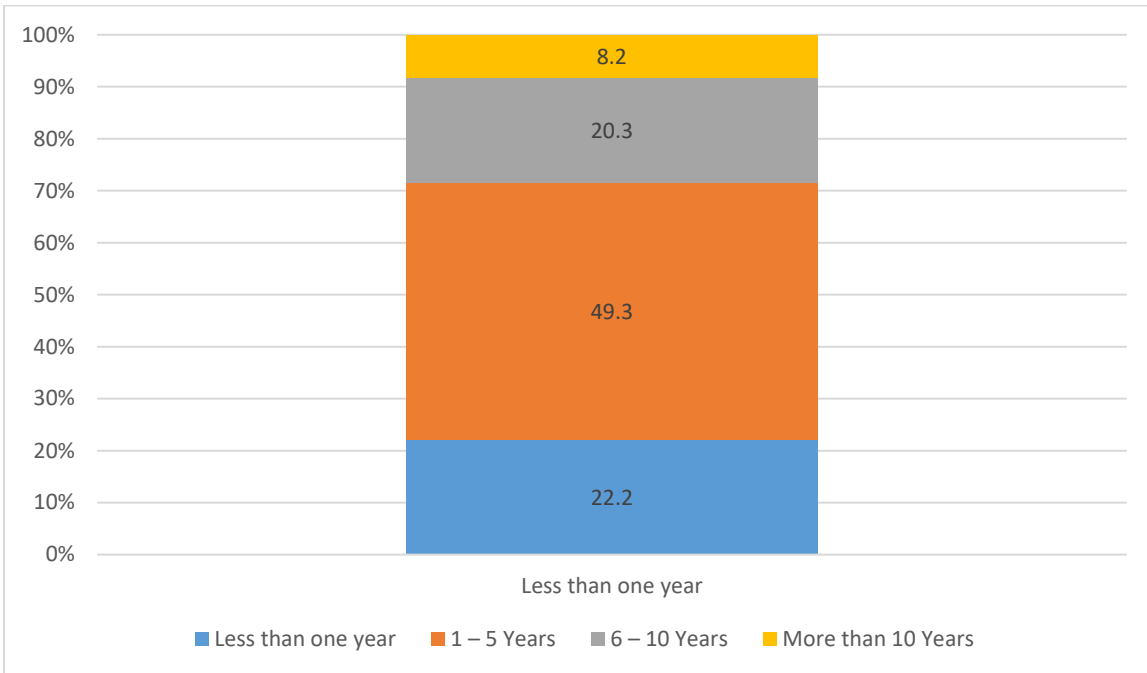


Source: Own Survey, 2021.

Among the 16 private commercial banks in Ethiopia, 4 were systematically selected from four strata which each involve 4 banks. In order to ensure representativeness, data was collected from these four banks proportional to the number of employees that the banks have. Thus, from the total respondents of 365, 38.6% of the respondents are from Bank of Abyssinia followed by 35.6% from Dashed Bank, 17% from Lion International Bank and 8.8% from Debut Global Bank as can be observed from the above figure.

#### 4.2.5. Years of service

Figure 4. 5: The years of Experience of respondents

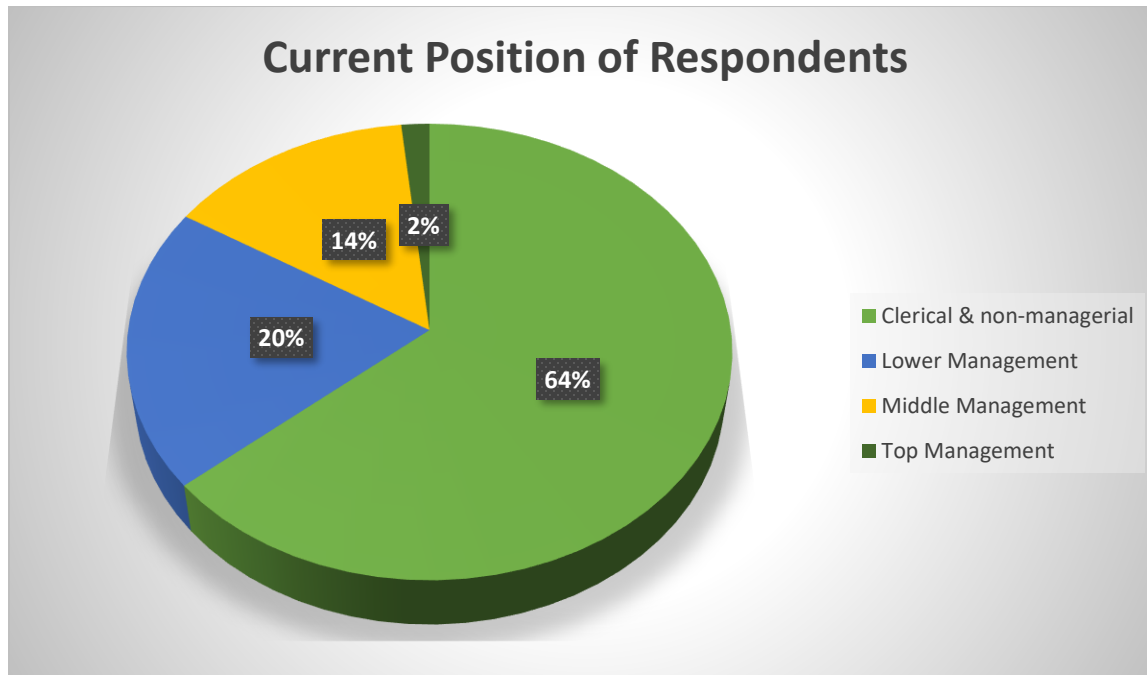


Source: Own Survey, 2021.

Out of the total respondents, the majority 180 (49.3%) have served their organizations from one to five years. The second largest group 81 employees (22.2%) have been employed in their respective banks in the last one year. 20.3% or 74 employees have service years of six to ten years. Finally, 30 employees (8.2%) have more than ten years of employment relationship with their banks. By combining the first two categories together it is possible to observe that the majority of workers (71.5%) have employment relationship of less than six years with their respective organizations. This is an indication of the existence of high turnover in the banking industry which can severely hamper the stability of the industry. Furthermore, there is a positive relationship between tenure and productivity (TWH and Feldman, 2010). Thus, banks need to create a working environment and conditions that can encourage employees to remain within their organization for long so as to improve their productivity which can in turn improve organizational performance.

#### 4.2.6. Current Position

Figure 4. 6: Current position of responders.



Source: Own Survey, 2021.

In terms of the current position that the employees hold in their organizations, the majority (63.8%) of respondents are found at the clerical and non-managerial positions. These are employees that are believed to play significant roles in the implementation aspect of strategic management. Lower and middle management employees are the second and third largest group of respondents with 20% and 14.5% respectively. Together these two groups comprise of 34.5% of the total respondents. These employees contribute to the implementation as well as evaluation of strategic management practices. Finally, there are top management employees who play significant roles in strategy formulation. Due to the challenge of accessing such employees only 1.6% of respondents are from this category. The rationale for including all employees at different ranks of the banks is because strategic management is a broad issue that requires the participation of all employees. It is in fact the lack of understanding and commitment towards strategic management by lower level employees, who directly interact with the customers of organizations, that contributes to the gap between strategic goals and actual performance (Kaplan and Norton, 2005).

### 4.3. Reliability Test

Reliability can be defined as the consistency of a repeated measurement of one object. A given measure is said to be reliable if it produces the same or close results when it is used to measure the same object under similar conditions (Gravetter and Wallnau, 2017). One way to determine the reliability of a given instrument is through Cronbach's Alpha coefficient method which is the most commonly used method to evaluate the internal consistency of items (Leech, Barrete and Morgan, 2005). The coefficient usually lies between 0 and 1. The closer it is to 1 the higher the level of internal consistency of items. A Cronbach's Alpha coefficient of 0.7 or above shows that the instrument under scrutiny is reliable (Cohen, Manion and Morrison, 2007). The result of the Cronbach's Alpha coefficient test for all items in the questionnaire is presented in the following table. Accordingly, each of the items have a coefficient of 0.71 or above and the Cronbach's Alpha Coefficient for all items combined is 0.966 which indicates that the instrument which is used in the study is reliable.

Table 4. 3: Cronbach's Alpha Test

Variables	Number of Items	Cronbach's Alpha
Strategy Formulation	21	0.881
Strategy Implementation	15	0.907
Strategy Evaluation/ Control	11	0.89
Financial Performance	5	0.719
Non-financial Performance	17	0.917
All Items	69	0.966

Source: SPSS 25 Output

### 4.4. Validity Test

Validity refers to the accuracy or appropriateness of an instrument used in a study. An instrument is considered valid if it can measure what it is designed to measure (Kumar, 2011). The capacity of an instrument to comprehensively address the topic it is supposed to measure is called content validity (Kothari, 2004). The content validity of the instrument used in this study was ensured by reviewing appropriate literature, by considering the experience of other research works in the area

which have applied the same instrument and finally the instrument was used after getting the advisor's approval.

According to Karras (1997), when the type of data used in a study is ordinal in nature, it is possible to use Spearman's correlation coefficient to determine the construct validity (or what Karras (1997) calls external consistency) of instruments. This method is conducted by first computing the total score values for all items within a given variable. Then the Spearman's correlation coefficient of each total score value with respective values of items for all observations was calculated. The result of this correlation analysis is presented in four tables in the annex section. From the tables, it can be observed that the correlation of each item with its respective total value is statistically significant at 5%. Furthermore, if the calculated correlation coefficient for each item is greater than the critical value of Spearman's correlation, it can be concluded that the item is valid. As it can be observed from the correlation tables (see annex), the calculated correlation coefficient for each item is greater than the critical value. As a result, it can be concluded that all the items in the questionnaire are valid.

#### 4.5. Correlation Analysis

In order to investigate the relationship among the three elements of strategic management, a correlation analysis is used. Correlation analysis is a measure of the tendency among two or more variables to vary jointly. There are different measures of correlation. In this study, a Spearman's correlation analysis is used. Spearman's correlation analysis, also called rank correlation, is a method used when working with ordinal data where there are ranks for different values of variables (Kothari, 2007). The correlation analysis of each bank selected in the study is presented next.

Table 4. 4: Result of Spearman's Correlation analysis for Dashen Bank

Spearman's Rho	Strategy Formulation	Strategy Implementation	Strategy Evaluation/ Control
Strategy Formulation	1.000		
Strategy Implementation	.586**	1.000	

Strategy Evaluation/ Control	.451**	.521**	1.000
------------------------------	--------	--------	-------

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 25 Output

As it can be seen from the above table, the correlation of strategy formulation with strategy implementation is 0.586 and with that of strategy evaluation/ control is 0.451. When it comes to the correlation between strategy implementation and strategy evaluation/ control, the coefficient is 0.521. These coefficients are statistically significant since their P-value is less than 0.01. The positive relationship among the three variables can be better explained using the framework of forward and backward linkages. First considering the forward linkage: strategic decisions that are adopted in the formulation stage will surely have an influence on strategy implementation in terms of affecting its elements such as determining the structure of the organization and the leadership style of management. Similarly, the elements of strategy implementation such as organizational structure and managerial and board support of strategies in turn determine the strategy evaluation/ control of the organization in terms of assessing performance and taking corrective actions. When it comes to backward linkage, the past strategic decisions, actions, assessment results of an organization serve as a basis upon which future strategies are formulated and executed. As can be seen from the above correlation analysis result, the three elements of strategic management are positively correlated with each other. This implies that an effort by a bank to improve one of the elements will be followed similar change in the other elements. So, the multiplied effect on organizational performance will be more pronounced.

Table 4. 5: Result of Spearman’s Correlation analysis for Bank of Abyssinia

Spearman's Rho	Strategy Formulation	Strategy Implementation	Strategy Evaluation/ Control
Strategy Formulation	1.000		
Strategy Implementation	.648**	1.000	

Strategy Evaluation/ Control	.540**	.758**	1.000
------------------------------	--------	--------	-------

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 25 Output

The above table shows the correlation analysis result of the three elements of strategic management for Bank of Abyssinia. The correlation of strategy formulation with strategy implementation is 0.648 and with that of strategy evaluation is 0.54. When it comes to the correlation between strategy implementation and evaluation the correlation coefficient is 0.758 which is a strong level of relationship among the variables. The coefficients indicate that there is a moderate to a strong level of positive relationship between the independent variables for Bank of Abyssinia. The theoretical basis for this relationship has already been stated in the previous correlation analysis.

Table 4. 6: Result of Spearman’s Correlation analysis for Lion International Bank

Spearman's Rho	Strategy Formulation	Strategy Implementation	Strategy Evaluation/ Control
Strategy Formulation	1.000		
Strategy Implementation	.701**	1.000	
Strategy Evaluation/ Control	.716**	.813**	1.000

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 25 Output

The above table shows that there is a strong correlation between strategy formulation and strategy implementation with a coefficient of 0.701 also between strategy formulation and strategy implementation with a coefficient of 0.716. The correlation between strategy implementation and strategy evaluation/ control is 0.813 which indicates that there is a very strong positive correlation between the two variables.

Table 4. 7: Result of Spearman’s Correlation analysis for Debut Global Bank

Spearman's Rho	Strategy Formulation	Strategy Implementation	Strategy Evaluation/ Control
Strategy Formulation	1.000		
Strategy Implementation	.710**	1.000	
Strategy Evaluation/ Control	.767**	.834**	1.000

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS 25 Output

Similar to the previous cases, the correlation of the elements of strategic management is positive and strong for Debut Global Bank. The correlation of strategy formulation with implementation is 0.71 and with that of strategy evaluation/ control is 0.767. The correlation coefficient between strategy implementation and evaluation/ control 0.834 indicating the presence of a very strong relationship between the two variables. From this it is possible to conclude that a positive effort of a bank in one element of strategic management is positively associated with the other two elements; resulting in a more noticeable influence on organizational performance.

## 4.6. Preliminary Tests

In order to perform a linear regression analysis with justifiable results, it is first important to test whether a set of criteria are fulfilled. These criteria are called Classical Linear Regression Model (CLRM) assumptions (Asteriou and Hall, 2011). The result of tests for these assumptions for the study at hand is provided next.

### 4.6.1. Linearity Test

The first assumption of classical linear regression analysis states that the regression model is linear in parameters. This assumption doesn’t imply that the dependent and independent variables themselves have to be linear. Rather, it means that estimated parameters that explain the relationship between these variables must fit the description of linearity. If this assumption is

violated, the efficiency of a regression result would be reduced (Gujarati and Porter, 2009). In order to ascertain the linearity of the model in this study, scatterplots of residuals for the four regressions were developed which are presented in the annex section. As it can be observed from the scatterplots, the residuals of the four regressions follow straight lines. Therefore, it can be concluded that the assumption of linearity is upheld for all the regressions.

#### **4.6.2. Normality Test**

The normality assumption states that the error term observations are drawn from a normal distribution. A normal distribution is a distribution that can form a symmetrical bell-shaped curve. The shape of the curve is caused by the tendency of values in the distribution to lie close to the center or the mean. The normality assumption is important because it serves as a basis for making statistical inferences about a sample drawn from a population (Kothari, 2004).

To test for normality, plots of residuals are used (see annex). The plots indicate that the residuals in each regression are fairly close to the diagonal line of normality. In addition, Histograms which show the shape and spread of distributions are also used. The Histograms (see annex) show that the distributions are close to a bell-shaped curve. Thus, it can be concluded that the data follow a normal distribution. Moreover, the central limit theorem states that the sampling distribution of estimates will converge to a normal distribution as the sample size increases (Gravetter and Wallanau, 2017).

#### **4.6.3. Test of Multi-collinearity**

Multi-collinearity can be defined as the presence of linear relationship among independent variables. Its influence on a linear regression depends on the degree of relationship among the variables. Perfect Multi-collinearity would result in biased estimates while severe Multi-collinearity would reduce the reliability of tests of significance and would make it difficult to distinguish between/ among the influence of independent variables (Wooldridge, 2013). To determine the presence or absence of Multi-collinearity a method called Variance Inflation Factor (VIF) has been used. This method measures the extent to which the values of variances have been increased by Multi-collinearity. The result of the tests of Multi-collinearity are shown in the annex section.

A VIF value of less than 0.1 or more than 10 should be considered with caution (Landau and Everitt, 2004). As it can be seen from the tables, the VIF values of all independent variables in

each regression are within this acceptable range. Thus, it can be concluded that there is no Multicollinearity in the regression models.

#### **4.6.4. Autocorrelation Test**

The absence of autocorrelation is another assumption of linear regression. Autocorrelation is the correlation of the members of the residual spread over time or space (Gujarati and Porter, 2009). It can cause bias in linear regression estimations and also reduce their efficiency. The most common method to test for autocorrelation is the Durbin-Watson Statistic (Gujarati and Porter, 2009). The value of this statistic varies between 0 and 4. A value of 2 indicates there is no autocorrelation. The basic rule of thumb is that if the statistic is close to 2, there is no autocorrelation problem (Asteriou and Hall, 2011). The result of the Durbin-Watson test for each regression are presented along each regression result. Thus, as it can be observed, the Durbin-Watson statistic for each regression lies fairly close to 2. Thus, the assumption of no autocorrelation is not violated for each regression.

#### **4.6.5. Heteroscedasticity Test**

The other classical linear regression assumption that is more common in cross sectional data is the assumption of no Heteroscedasticity. This assumption states that the error term observations are drawn from a distribution that has a constant variance. If this assumption is violated, linear regression would still generate unbiased estimates but, due to its effect on the variance; confidence interval and hypothesis testing would be unreliable (Gujarati and Porter, 2009). To test for the presence of Heteroscedasticity, scatterplot graphs are used. The chart is based on the idea that if there is Heteroscedasticity problem, the graph shows some kind of pattern (Asteriou and Hall, 2011). As can be seen from the scatterplot graphs for each regression, (see annex) there seems to be no particular pattern in the distribution of the spots. So, it can be concluded that there is no Heteroscedasticity problem in the data.

### **4.7. Regression Analysis**

Considering that all the classical regression assumptions have been fairly fulfilled, the next task is to conduct a regression analysis to analyze the relationship between the dependent and independent variables. The regression analysis result for each selected bank is provided next along with a discussion of the findings.

### 4.7.1. Regression analysis for Dashen Bank

The first bank that is analyzed Dashen Bank S.C. which has been selected using a sampling technique to represent banks in the first stratum. These are the best performing banks in the industry.

Table 4. 8: Regression analysis for Dashen Bank

Variable	Coefficient	Std. Error	T-Statistic	Probability
Constant	.199	.081	2.467	.015
Strategy Formulation	.063	.033	1.903	.059
Strategy Implementation	.112	.027	4.179	.000
Strategy Evaluation/ Control	.110	.022	4.876	.000

R-Square 0.682      Adjusted R-square 0.674  
 F-Statistics 91.419      Prob. (F-Statistics) 0.000  
 Durbin-Watson 1.426

Source: SPSS 25 Output

The first value that is interpreted is the F-statistic which is a measure of overall significance; it shows whether all the independent variables significantly affect the dependent variable. As it can be seen from table 4.11 the value of the F-statistic is 91.419 with P-value < 0.01. This indicates that the independent variables are jointly statistically significant and that the model as a whole is significant.

The R<sup>2</sup> value in the table is a measure of goodness of fit which indicates how much of the variation in the dependent variable is explained by the independent variables in the model. The R<sup>2</sup> value for our model is 0.682 and the adjusted R<sup>2</sup> value (which takes into account the number of independent variables) is 0.674. This can be interpreted as 67.4 % of the variation in organizational performance is explained by the three independent variables in the model (strategy formulation, strategy implementation and strategy evaluation/ control) which is a good level of explanation.

The coefficients in table 4.11 are interpreted as an average change in the dependent variable as a function of change in an independent variable holding other variables constant (Frost, 2019). In this model the dependent variable has been transformed into a logarithm form before conducting the regression analysis. Thus, the interpretation of each coefficient is a percentage change in the

dependent variable for a unit of change in an independent variable (Hill, Griffiths and Lim, 2011). The first independent variable is strategy formulation whose coefficient is 0.063. This coefficient is not significant at the conventional 5% level. However, it becomes significant at 6% and thus can be interpreted as follows: if strategy formulation practices in Dashen Bank S.C. increase by one-unit, organizational performance increases by 6.3% for the same level of the other variables. This result is consistent with the findings of Owich, Katuse and Ngari (2018) who argued that strategy formulation has a positive influence on organizational performance and that organizations need create a favorable environment for the application of the different elements of strategic management such as developing visions and missions, analyzing internal and external environment and developing and selecting appropriate strategies. The theoretical background for this result states that organizations that adopt strategy formulation tend to have strong performance because they will have a clear path towards which resources can be directed and this makes coordination and control more effective (Fred, 2007).

The second variable is strategy implementation whose coefficient is 0.112 which is statistically significant with P-Value < 0.01. The value of the coefficient shows that for each unit of improvement in strategy implementation, organizational performance improves by 11.2 % holding other variables constant. This result conforms to that of Goromonzi (2016) who reached the same conclusion by analyzing the impact of strategy implementation on organizational performance of commercial banks in Zimbabwe. Accordingly, the researcher proposed that the leadership in the banks should invest to create effective strategy implementation techniques. Strategy implementation is often called the most difficult element of strategic management because no matter how good strategies are prepared on paper, they can have meaningful impact only if they are executed effectively. The ultimate goal of strategies is improving the performance of an organization by enhancing competitive advantage; and it is strategy implementation which ensures the achievement of this goal (Rani, 2019).

The final independent variable is strategy evaluation/ control which has a statistically significant (P-value < 0.01) coefficient of 0.110. So, given the same values of the other variables, a unit change in strategy evaluation/ control positively changes organizational performance by 11%. According to Gavetti and Ocasio (2015), strategy evaluation/control contributes to organizational performance in three ways; one by providing direction and making appropriate corrections when needed, two by guiding employees to align their activities with the overall organizational objective

and three by motivating employees through providing encouragement for good performance. The outcome of positive influence of strategy evaluation on organizational performance of the regression analysis is in line with the findings of Ibrahim (2015) who found a positive and significant effect of strategy evaluation on organizational performance and thus proposed that in order to improve performance, organizations should strengthen their evaluation process and that they need to ensure that their strategies are in line with their overall organizational goal.

The result of the regression analysis is not surprising considering the long operational history as well as the strong performance of Dashen bank. However, lately the rate of growth of performance in the bank has been declining as compared to other private commercial banks in the country. In fact, this bank was the leading private commercial bank in Ethiopia until 2016 when it was overtaken by Awash Bank S.C which had been its closest competitor for many years before that. Different factors can be attributed for the slowdown in performance of Dashen Bank in recent years such as political and economic uncertainties, lack of foreign currency and stiff competition from its peers (Dashen Bank (2016) & Awash Bank (2016)). Recently, Dashen Bank has expressed its plan to improve its performance and become competitive in the banking sector of the country. The result of the regression analysis indicates that strategic management can be used as one tool that the bank can use to achieve these objectives.

After conducting the regression analysis, it is possible to test the hypotheses which were proposed based on literature that has been reviewed. In the process of testing a hypothesis, the most important element is individual significance which can be measured using t-values or p-values. The regression coefficients of each variable provide the direction and strength of causal relationship between that independent variable and the dependent variable. However, the significance of each beta value ( $\beta$ ) is determined by its t-value and/or p-value. According to Asteriou and Hall (2011), for large data sets ( $n > 30$ ), rather than consulting distribution tables, it is possible to use the rule of thumb  $|t| > 2$  or a P-value  $< 0.05$  to reject the null hypothesis.

The first null-hypothesis states that strategy formulation doesn't have a significant influence on organizational performance. Considering the P-value of this variable in the regression analysis (0.59), this hypothesis can be rejected although not at the conventional 5% level. The second null-hypothesis states that strategy implementation doesn't have a significant effect on organizational performance. This hypothesis can also be rejected with P-value  $< 0.01$ . The third null-hypothesis which proposed that strategy evaluation/ control has no significant influence on organizational

performance can also be rejected in favor of the alternative hypothesis which argued that it does in fact has a significant influence with P-value < 0.01.

#### 4.7.2. Regression analysis for Bank of Abyssinia

The second bank that will be subjected to regression analysis is Bank of Abyssinia which represents those banks listed in the second stratum of private commercial banks. The level of performance of these banks, as measured by profit before tax, is lower than those in the first stratum but higher than those in the third and fourth strata.

Table 4. 9: Regression analysis for Bank of Abyssinia

Variable	Coefficient	Std. Error	T-Statistic	Probability
Constant	.516	.084	6.124	.000
Strategy Formulation	.023	.029	.798	.426
Strategy Implementation	.088	.035	2.506	.013
Strategy Evaluation/ Control	.100	.028	3.548	.001

R-Square 0.562                      Adjusted R-square 0.553  
 F-Statistics 57.824                      Prob. (F-Statistics) 0.000  
 Durbin-Watson 1.984

Source: SPSS 25 Output

First considering the F-statistic which is 57.824 with probability less than 0.01 it is possible to conclude that the three independent variables have a significant joint influence on organizational performance. The R-square and Adjusted R-square values of this regression indicate that 55.3% of the variation in organizational performance can be observed using the above model which shows a good level of model fit.

Coming to the interpretation of the coefficients, out of the three independent variables strategy formulation was found to be insignificant. So, the other two variables will be interpreted. The coefficient of strategy implementation is 0.088 which indicates that if strategy implementation practices increase by one-unit, organizational performance increases by 8.8% holding other variables constant. Similarly, the coefficient of strategy evaluation/ control is 0.10 which can be interpreted as a 10% improvement in organizational performance for a unit of increase in strategy

evaluation or control for the same level of the other variables. The theoretical and empirical backgrounds for these results have already been discussed in the previous regression.

Although Bank of Abyssinia is found in the second stratum of banks listed based on their level of performance measured by profitability, it is one of the most experienced private commercial banks in Ethiopia. In fact, Bank of Abyssinia is the third private commercial bank to be established coming only after Awash and Dashen bank respectively (NBE, 2021). As the years of operation of an organization increases, it is expected that the organization will leverage its experience and expertise in its area to improve its performance. Despite this, the performance of Bank of Abyssinia had been lagging behind its peers for many years. However, in 2015 the bank introduced a new strategy management program which aimed to redesign many aspects of the bank such organizational structure, human resources management, marketing etc. Consequently, the bank has become one of the fastest growing private commercial banks in Ethiopia in terms profitability, deposit levels, number of customers and branch expansion (Behailu, 2018). As the findings of the regression analysis show, strategic management and more specifically strategy implementation and evaluation/ control can be used to further fuel the rapid growth of the bank.

Based on the above regression analysis for Bank of Abyssinia, the three hypotheses of the study are tested as follows: with P-value of 0.426, there is no sufficient evidence to reject the first null-hypothesis. But the second and third null-hypotheses are rejected with P-values of 0.013 and 0.001 respectively indicating strategy formulation doesn't have a significant influence on organizational performance and strategy implementation and evaluation/ control do have significant effects on performance of banks in the third stratum.

#### **4.7.3. Regression analysis for Lion International Bank**

Lion International Bank represents the four banks that are found within the third stratum. These banks have moderate level of performance measured by annual profit. The operational experience of these banks is not more than 15 years. So, they are not as experienced as banks in the first two strata.

Table 4. 10: Regression analysis for Lion International Bank

Variable	Coefficient	Std. Error	T-Statistic	Probability
Constant	.453	.135	3.355	.001
Strategy Formulation	.054	.043	1.254	.215
Strategy Implementation	.125	.042	2.956	.005
Strategy Evaluation/ Control	.035	.038	.938	.352

R-Square 0.529                      Adjusted R-square 0.504

F-Statistics 21.676                      Prob. (F-Statistics) 0.000

Durbin-Watson 2.230

Source: SPSS 25 Output

The overall level of significance is measured using the F-statistics which is 21.676 with P-value less than 0.01. Thus, the three independent variables are jointly significant in influencing organizational performance. Considering the R-square and Adjusted R-square values which are 0.529 and 0.504 respectively it is possible to conclude that 50% of the variation in organizational performance can be observed from this regression model which is an acceptable level of goodness of fit.

Among the three independent variables, only strategy implementation was found to be statistically significant which can be interpreted as follows: organizational performance improves by 12.5% for a unit increase in strategy implementation *ceteris paribus*. The explanation for the positive relationship between strategy implementation and organizational performance has already been stated previously. Thus, banks in this stratum can make use of strategy implementation to overcome different challenges and improve their performance.

On the basis of the regression analysis result for Lion International Bank, the only variable whose related null-hypothesis can be rejected is strategy implementation with P-value of 0.005. Thus, strategy implementation has a significant influence on organizational performance. But the same can't be said for the other two variables.

#### 4.7.4. Regression analysis for Dehub Global Bank

Dehub Global Bank represents banks in the fourth stratum which consists of the least performing and youngest set of private commercial banks in Ethiopia.

Table 4. 11: Regression analysis for Dehub Global Bank

Variable	Coefficient	Std. Error	T-Statistic	Probability
Constant	.162	.134	1.216	.234
Strategy Formulation	-.072	.051	-1.428	.164
Strategy Implementation	.164	.056	2.932	.007
Strategy Evaluation/ Control	.211	.061	3.436	.002

R-Square 0.832                      Adjusted R-square 0.814

F-Statistics 46.19                      Prob. (F-Statistics) 0.000

Durbin-Watson 1.268

Source: SPSS 25 Output

The F-statistics which is 46.19 with P-value < 0.01 indicates that the three independent variables jointly have a significant influence on organizational performance. When it comes to the question of model fit, the R-square which is 0.832 and Adjusted R-square which is 0.814 show that 81.4% of the variation in organizational performance can be captured with the presented model which a high level of fit.

Individually, strategy formulation was found to have an insignificant influence on organizational performance and thus the other two variables are interpreted. The coefficient of strategy implementation is 0.164 which means a unit of increase in strategy implementation leads to a 16.4% increase in organizational performance for the same level of other variables. And the coefficient of strategy evaluation/ control indicates that organizational performance can be improved by 21.1% by improving strategy evaluation/ control practices by one unit. As stated above, the fourth stratum comprises of banks that have the lowest level of performance as measured by profitability. This low level of performance seems to be an implication of the limited operational experience of the banks. This point can be emphasized by considering the fact that the

maximum length of years in business for the four banks in this stratum is 11 years for that of Abay Bank.

When it comes to hypothesis testing, the first null-hypothesis can't be rejected for the regression analysis result of Debu Global Bank indicating that strategy formulation doesn't have a significant influence on organizational performance. But the second and third null-hypotheses can be rejected signifying the presence of a significant influence of strategy implementation and evaluation/control on performance.

#### **4.8. Approaches of Strategic Management that could be adopted by banks**

From the regression analysis it has been observed that strategic management has a largely positive influence on organizational performance. Once this positive relationship has been established, it is important to show what type of strategic management approach needs to be adopted by private commercial banks in Ethiopia to benefit from this positive relationship. According to Wheelwright (1984), there are two basic approaches of strategic management that can be adopted by organizations which are portfolio-based content approach and value-based incremental approach.

- 1. Portfolio-based content approach:** this is the most widely accepted approach of strategic management. It involves a process where major strategic decisions of an organization are made by top level management or CEO after a rational analysis of the competitive business environment. Strategic business units are identified and specific strategies are crafted for each business unit based on its competitive advantage and resources are allocated accordingly. In this approach, developed strategies are all-inclusive covering every aspect of the organization. And finally, the environment or the industry and market within which an organization operates is believed to play a significant role in determining the success or failure of the organization.
- 2. Value-based incremental approach:** this approach involves a practice of strategic management where strategic decision making is collective instead of being concentrated on top level management. The key determinant for strategic decisions is the set of values and beliefs within the organization and the commitment of management for their implementation rather than environmental and competitive considerations. Strategies

incrementally develop within the organization and are finally approved instead of being imposed from the top.

Although the two approaches have been presented as contrasting methods, it is important to understand that organizations don't have to follow a pure version of one or the other. Usually, the strategic management practice of an organization is a combination of different aspects of the two approaches. As it has been stated above, both approaches have their own advantages and disadvantages, which makes the task of choosing between the two very important. Some of the positive attributes of the two approaches that can be adopted by private commercial banks in Ethiopia are discussed next.

The first one is conducting a detailed analysis of the business environment. Before developing strategies, it is extremely crucial to first analyze the nature of the business environment and the position of one's organization within that environment. Considering the ever-growing competition among banks in Ethiopia and the imminent possibility of foreign competitors entering the financial sector of the country in the near future, it is a necessity for all banks to conduct a business environment analysis.

Secondly, the banks could develop specific strategies for different business units. Ethiopian banks are usually criticized for using the same strategies to compete amongst one another such as advertising and branch network expansion (Zerayehu et al, 2013). However, the business market involves customers with different and sometimes incompatible needs. So, to meet the need of customers the banks need to focus on special portions of the market which are overlooked by competitors instead of applying the same old strategies that are implemented by everyone else.

In the Value-based incremental approach of strategic management, strategies are developed within the organization based their practicability and importance and are finally approved. This indicates strategies aren't based on the decision of few individuals at the top rather they are the outcome of the contribution of everyone within the organization. When employees feel they have made a contribution to their organization and that their contribution is duly acknowledged, they become motivated to make further contributions which enhances their productivity and in turn organizational performance.

## Chapter Five

### Summary of Findings, Conclusions and Recommendations

This chapter concludes the study by summarizing the major findings and providing concluding remarks. Based on the findings and conclusions, recommendations are also presented. Finally, the major limitations of the research and directions for future studies are suggested.

#### 5.1. Summary of Findings

The main objective of the study is to analyze the effect of strategic management on organizational performance of private commercial banks in Ethiopia. From the sixteen private commercial banks in the country, four (Dashen Bank, Bank of Abyssinia, Lion International Bank and Debub Global Bank) were selected by applying systematic sampling on a list of banks classified into four strata. A survey method of data collection was used in order to obtain desired data for the study. The questionnaire involved demographic, rating and Likert scale questions. The demographic variables include gender, age, educational background, the organization (bank) that workers are employed in, years of service and current position. The rating questions asked employees to rate different aspects of their organization related to the topic at hand based on their opinion. And the Likert scale questions provided a scale ranging from 1 to 5 (from strongly disagree to strongly agree) using which employees can express their agreement or disagreement about different statements. The reliability of the instrument items was assessed using Cronbach' Alpha test of internal consistency. The coefficient for all the items was found to be more than 0.7 which indicated that the items are indeed reliable. Similarly, the validity of the instruments was also established using the reviewed literature, advisor's opinion and Spearman's correlation test of validity.

The sample size of the study was 391. From the total distributed questionnaire, 365 (93%) were returned and were found to be usable. The data collected from the questionnaire was analyzed using Statistical Package for Social Sciences (SPSS) version 25. Due to the ordinal nature of the data that was used in the study, a Spearman's correlation (Rank correlation) analysis of the three independent variables was conducted. The correlation results indicate that there is a moderate to strong, positive and statistically significant correlation among the three independent variables.

Before conducting a regression analysis of the collected data, different preliminary tests were conducted which are required for ensuring the soundness of the analysis results. These tests include

linearity, normality, Multi-collinearity, Autocorrelation and Heteroscedasticity. The results of these tests indicate that none of the classical linear regression assumption are violated. The four regression analyses were setup to determine the influence of the independent variables (Strategy formulation, Strategy implementation and Strategy evaluation/ control) on the dependent variable (Organizational performance). The overall significance of the regression results was established using the F-statistic. The P-values of the F-statistics of the four regressions were all less than 0.01 which indicate that the independent variables are jointly significant in affecting the dependent variable in all the four regressions. The R-square and Adjusted R-square values for the four regressions range from 0.50 to 0.83 indicating a significant proportion of the variation in organizational performance is explained by the model adopted in the study. Similarly, the coefficient of each independent variable was interpreted in each regression after determining its respective significance using the framework of a Log-Lin model meaning a unit of change in an independent variable leads to a percentage of change in the dependent variable *ceteris paribus*. From the findings, it was determined that strategic management has a largely positive influence on organizational performance of private commercial banks in Ethiopia.

## **5.2. Conclusions**

The rise of competition both domestically and on the international stage has increased the need for organizations in general and managers in particular to continually improve performance. To overcome this and other challenges and achieve organizational objectives, managers can use different tools one of which is strategic management. The role of strategic management to improve organizational performance is well acknowledged by academicians and practitioners alike.

This study aimed to investigate the potential effect of strategic management on the performance of organizations with a particular focus on private commercial banks in Ethiopia. In order to get a holistic view of strategic management, all of its three elements namely strategy formulation, strategy implementation and strategy evaluation/ control were considered in the study. Recently, the level of competition among Ethiopian banks is on the rise and there is an indication of the opening up of the country's financial sector to foreign actors. All these create additional pressure on banks and their managers to find a reliable tool which can help them overcome the challenges. The effect of strategic management on the performance of organizations was explored by adopting (with a variation) a model that was used by an earlier researcher to investigate this influence. A correlation and multiple regression analysis where the elements of strategic management are the

predictors and organizational performance is the dependent variable was employed to answer the research questions and test the hypotheses that were developed based on relevant literature reviewed.

Generally, the level of influence and statistical significance of the three independent variables were found to be different for the four banks selected from each of the four strata. As we go down the performance ladder, measured by profitability from the most profitable to the least ones, the level of significance also goes down. This means banks in high echelon of organizational performance show a stronger relationship between performance and strategic management compared with their less-performing counterparts indicating the presence of a positive relationship between the strength of the influence of strategic management and the level of organizational performance.

Strategy formulation was found to have the least significant influence on organizational performance. In the first regression it wasn't significant at the conventional 5% level and became significant at 6%. And in the three regressions that follow its effect was completely insignificant. This indicates that private commercial banks have a lot to work on to improve their strategy formulation practices. Among the three independent variables, strategy implementation was the only one to have a consistently significant positive effect on organizational performance in all the four regressions. This implies that the influence of strategy implementation doesn't depend on the current level of organizational performance that the banks have. And thus, it can be used by all banks to improve their level of performance regardless of their current performance status and length of operational experience. When it comes to strategy evaluation/ control, its influence was found to be insignificant only in the third regression for that of Lion International Bank. Thus, generally it can be concluded that strategy evaluation/ control has a significant positive influence on organizational performance. After determining the largely positive influence of strategic management on organizational performance of private commercial banks in Ethiopia, the author identified that an appropriate approach to strategic management by the banks would be a combination of Portfolio-based content approach and Value-based incremental approach. The major research gap which was identified in this study was the absence of research works analyzing the effect of strategic management on the performance of private commercial banks in Ethiopia. Thus, the result of this study is believed to contribute to filling this gap.

### 5.3. Recommendations

Based on the findings and conclusions of the study, the following recommendations are provided for private commercial banks in Ethiopia to improve their performance:

- **Adopt Strategic Business Unit (SBU) structure:** Strategic business units are divisions within an organization that produce goods and services tailored to a specific market portion. such divisions can contribute to the performance of the banks by having a detailed understanding of a specific portion of the market. This enables the banks to develop business level strategies that can address the needs of customers in that specific market which can encourage creativity and help create unique identity for the banks instead of following or responding to the strategies of close competitors. Furthermore, SBU structure also provides an opportunity for top level management of the banks to delegate responsibility to SBU managers so that the top-level management can shift their attention away from routine tasks towards corporate ones that can have long term implication for their organizations.
- **Analyze the environment on a continuous basis:** it is important for any business to have an understanding of its environment and develop strategies accordingly. This becomes even more important for banks because the nature of the business changes very rapidly due to the influence of technology. Specifically, for banks in our country the level of competition is ever increasing and the possibility of foreign banks being allowed into the country is becoming imminent. Thus, the continuous analysis of the environment can give the banks a chance to anticipate the future and to prepare themselves accordingly so as to take proactive measures.
- **Undertake Collective management:** success within an organization requires the contribution of everyone. Making sure that employees at all levels of private commercial banks participate in the development of strategies, instead forcing down strategic goals decided upon by few top-level managers, can create a sense of ownership towards the final strategy and enhances its acceptance among employees. The commitment and the amount of effort that the employees expend towards the achievement of a strategy will be very high leading to higher productivity and overall organizational performance.

## **5.4. Limitations and Directions for Further Research**

- Due to time and budget constraints, this study was conducted by collecting data from employees of banks located in Addis Ababa, Ethiopia. However, the four selected banks have branches distributed all over the country. Thus, other researchers could undertake a study in this area by incorporating all branches of banks across the country.
- The research focused on analyzing the effect of strategic management on organizational performance in private commercial banks. So, there is an opportunity for future researchers to investigate the relationship between the two concepts by considering public banks and also other financial and non-financial organizations outside of the banking industry.
- This study considered the elements of strategic management as the only factors that can influence performance. But organizational performance is a wide and complex concept that can be affected by a number of issues. Therefore, future researchers could conduct a study by integrating strategic management with other factors that can potentially affect organizational performance.

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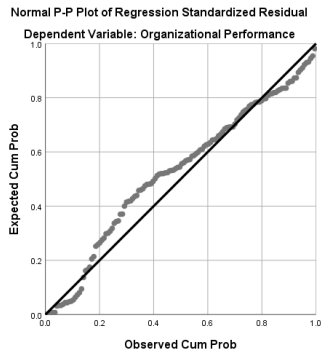
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# Annexes

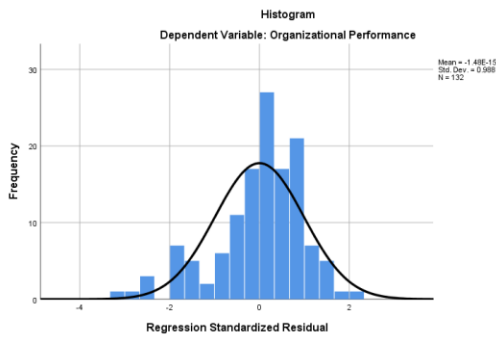
## Annex I: Result of preliminary Regression Analysis tests

### Result of preliminary tests for Dashen Bank S.C.

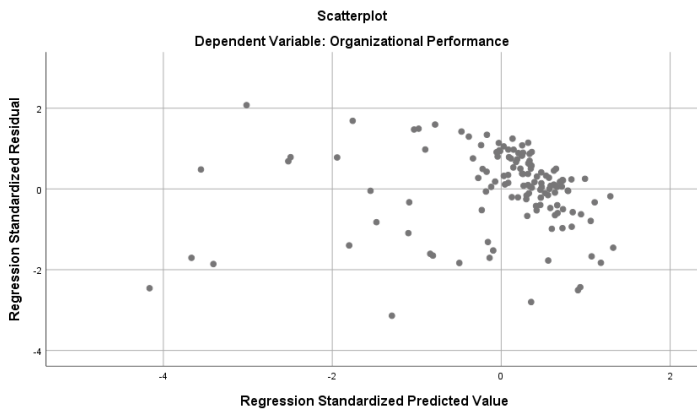
#### Test of Linearity



#### Test of normality



#### Test of Heteroscedasticity

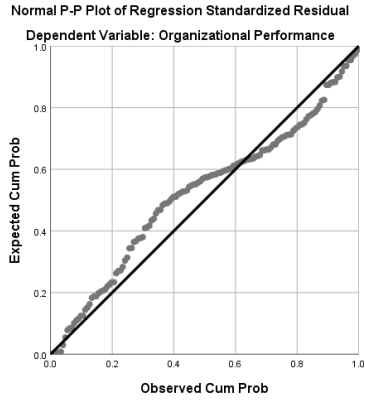


#### Test of Multi-collinearity

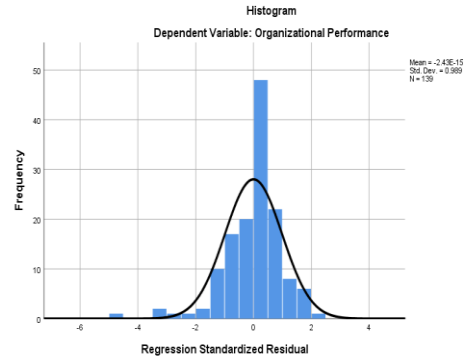
Variables	Tolerance	VIF
Strategy Formulation	.329	3.039
Strategy Implementation	.340	2.940
Strategy Evaluation/ Control	.407	2.459

# Result of preliminary tests for Bank of Abyssinia

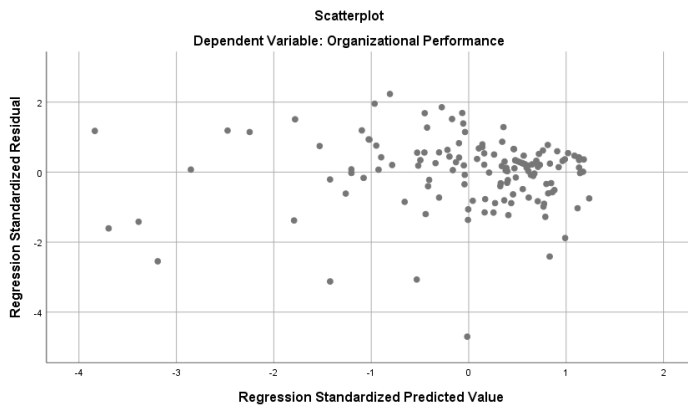
## Test of Linearity



## Test of normality



## Test of Heteroscedasticity

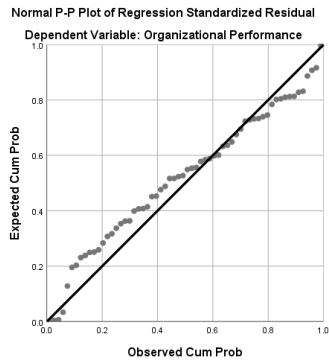


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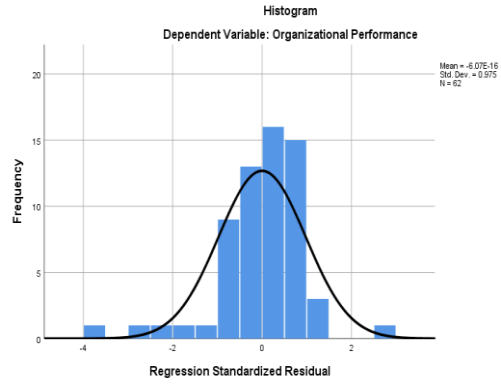
Variables	Tolerance	VIF
Strategy Formulation	.444	2.254
Strategy Implementation	.196	5.110
Strategy Evaluation/Control	.253	3.953

# Result of preliminary tests for Lion International Bank

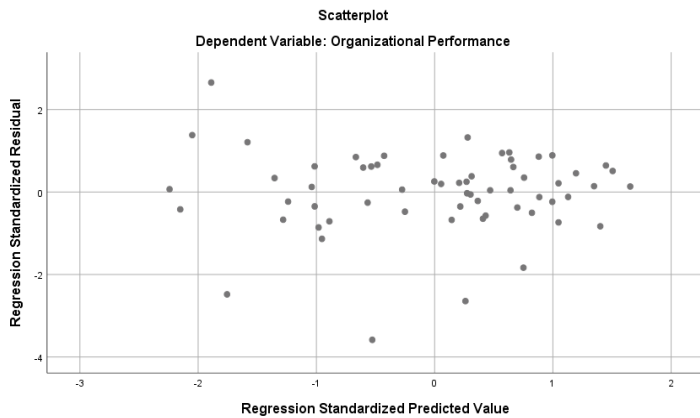
## Test of Linearity



## Test of normality



## Test of Heteroscedasticity

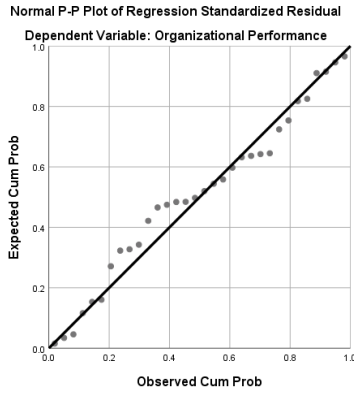


## Test of Multi-collinearity

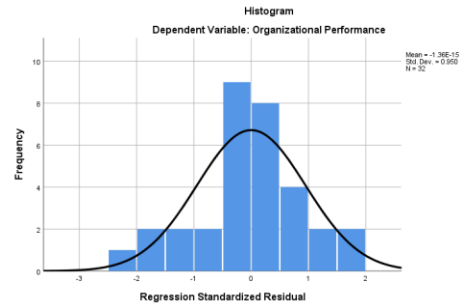
Variables	Tolerance	VIF
Strategy Formulation	.546	1.830
Strategy Implementation	.305	3.281
Strategy Evaluation/ Control	.296	3.375

# Result of preliminary tests for Debub Global Bank

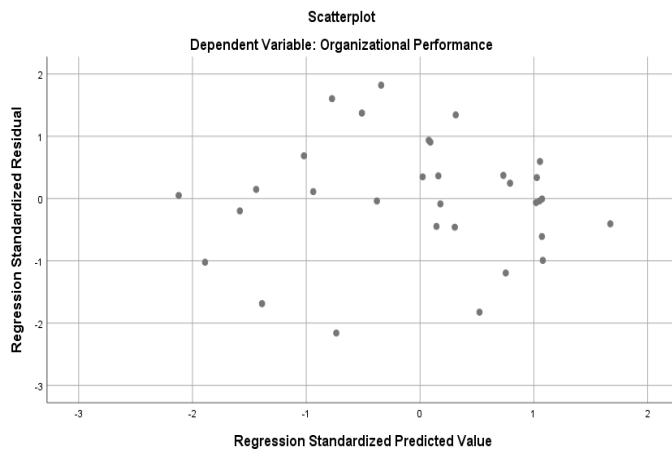
## Test of Linearity



## Test of normality



## Test of Heteroscedasticity



## Test of Multi-collinearity

Variables	Tolerance	VIF
Strategy Formulation	.396	2.527
Strategy Implementation	.208	4.817
Strategy Evaluation/ Control	.213	4.694

## Annex II: Correlation Test of Instrument Validity

### Spearman's Correlation Test of Instrument Validity: Strategy Formulation Items Correlations

			Score Total Strategy Formulation
Spearman's rho	Vision Statement 1	Correlation Coefficient	.323**
		Sig. (2-tailed)	0.000
		N	365
	Vision Statement 2	Correlation Coefficient	.270**
		Sig. (2-tailed)	0.000
		N	365
	Vision Statement 3	Correlation Coefficient	.445**
		Sig. (2-tailed)	0.000
		N	365
	Mission Statement 1	Correlation Coefficient	.327**
		Sig. (2-tailed)	0.000
		N	365
	Mission Statement 2	Correlation Coefficient	.291**
		Sig. (2-tailed)	0.000
		N	365
	Mission Statement 3	Correlation Coefficient	.517**
		Sig. (2-tailed)	0.000
		N	365

Mission Statement 4	Correlation Coefficient	.489**
	Sig. (2-tailed)	0.000
	N	365
Understanding Values 1	Correlation Coefficient	.421**
	Sig. (2-tailed)	0.000
	N	365
Understanding Values 2	Correlation Coefficient	.278**
	Sig. (2-tailed)	0.000
	N	365
Understanding Values 3	Correlation Coefficient	.501**
	Sig. (2-tailed)	0.000
	N	365
Strengths, Weaknesses, Opportunities and Threats Analysis 1	Correlation Coefficient	.553**
	Sig. (2-tailed)	0.000
	N	365
Strengths, Weaknesses, Opportunities and Threats Analysis 2	Correlation Coefficient	.637**
	Sig. (2-tailed)	0.000
	N	365
Strengths, Weaknesses,	Correlation Coefficient	.633**

Opportunities and Threats Analysis 3		
	Sig. (2-tailed)	0.000
	N	365
Strengths, Weaknesses, Opportunities and Threats Analysis 4	Correlation Coefficient	.516**
	Sig. (2-tailed)	0.000
	N	365
Strengths, Weaknesses, Opportunities and Threats Analysis 5	Correlation Coefficient	.504**
	Sig. (2-tailed)	0.000
	N	365
Establish Long Term Objectives 1	Correlation Coefficient	.433**
	Sig. (2-tailed)	0.000
	N	365
Establish Long Term Objectives 2	Correlation Coefficient	.478**
	Sig. (2-tailed)	0.000
	N	365
Generate Strategies 1	Correlation Coefficient	.610**
	Sig. (2-tailed)	0.000
	N	365

Generate Strategies 2	Correlation Coefficient	.518**
	Sig. (2-tailed)	0.000
	N	365
Selecting Strategies 1	Correlation Coefficient	.591**
	Sig. (2-tailed)	0.000
	N	365
Selecting Strategies 2	Correlation Coefficient	.494**
	Sig. (2-tailed)	0.000
	N	365
Score Total Strategy Formulation	Correlation Coefficient	1.000
	Sig. (2-tailed)	
	N	365
**. Correlation is significant at the 0.01 level (2-tailed).		
*. Correlation is significant at the 0.05 level (2-tailed).		

### Spearman's Correlation Test of Instrument Validity: Strategy Implementation Items

Correlations		Score Total Strategy Implementation	
Spearman's rho	Policy Support 1	Correlation Coefficient	.338**
		Sig. (2-tailed)	0.000
		N	365
	Policy Support 2	Correlation Coefficient	.348**

	Sig. (2-tailed)	0.000
	N	365
Policy Support 3	Correlation Coefficient	.433**
	Sig. (2-tailed)	0.000
	N	365
Financial Capacity 1	Correlation Coefficient	.470**
	Sig. (2-tailed)	0.000
	N	365
Financial Capacity 2	Correlation Coefficient	.593**
	Sig. (2-tailed)	0.000
	N	365
Motivation and Ownership 1	Correlation Coefficient	.693**
	Sig. (2-tailed)	0.000
	N	365
Motivation and Ownership 2	Correlation Coefficient	.684**
	Sig. (2-tailed)	0.000
	N	365
Board Support 1	Correlation Coefficient	.672**
	Sig. (2-tailed)	0.000
	N	365

Board Support 2	Correlation Coefficient	.665**
	Sig. (2-tailed)	0.000
	N	365
Organizational Structure 1	Correlation Coefficient	.635**
	Sig. (2-tailed)	0.000
	N	365
Organizational Structure 2	Correlation Coefficient	.639**
	Sig. (2-tailed)	0.000
	N	365
Open to change 1	Correlation Coefficient	.636**
	Sig. (2-tailed)	0.000
	N	365
Open to change 2	Correlation Coefficient	.632**
	Sig. (2-tailed)	0.000
	N	365
Human Resources 1	Correlation Coefficient	.616**
	Sig. (2-tailed)	0.000
	N	365
Human Resources 2	Correlation Coefficient	.571**
	Sig. (2-tailed)	0.000

	N	365
Score Total Strategy Implementation	Correlation Coefficient	1.000
	Sig. (2-tailed)	
	N	365

### Spearman's Correlation Test of Instrument Validity: Strategy Evaluation/ Control Items

Correlations		Score Total Strategy Evaluation/ control	
Spearman's rho	Assessment 1	Correlation Coefficient	.659**
		Sig. (2-tailed)	0.000
		N	365
Assessment 2		Correlation Coefficient	.637**
		Sig. (2-tailed)	0.000
		N	365
Measure Performance 1		Correlation Coefficient	.509**
		Sig. (2-tailed)	0.000
		N	365
Measure Performance 2		Correlation Coefficient	.570**
		Sig. (2-tailed)	0.000
		N	365
Identify where corrective action is necessary 1		Correlation Coefficient	.666**

	Sig. (2-tailed)	0.000
	N	365
Identify where corrective action is necessary 2	Correlation Coefficient	.656**
	Sig. (2-tailed)	0.000
	N	365
Assess Effect of change/ Participation 1	Correlation Coefficient	.646**
	Sig. (2-tailed)	0.000
	N	365
Assess Effect of change/ Participation 2	Correlation Coefficient	.611**
	Sig. (2-tailed)	0.000
	N	365
Moving Beyond Evaluation 1	Correlation Coefficient	.701**
	Sig. (2-tailed)	0.000
	N	365
Moving Beyond Evaluation 2	Correlation Coefficient	.678**
	Sig. (2-tailed)	0.000
	N	365
Moving Beyond Evaluation 3	Correlation Coefficient	.613**
	Sig. (2-tailed)	0.000
	N	365

Score Total Strategy Evaluation/ control	Correlation Coefficient	1.000
	Sig. (2-tailed)	
	N	365
*. Correlation is significant at the 0.05 level (2-tailed).		
**. Correlation is significant at the 0.01 level (2-tailed).		

**Spearman’s Correlation Test of Instrument Validity: Organizational Performance  
Correlations**

		Score Organizational Performance
Spearman's rho	Financial Goals 1	Correlation Coefficient
		.424**
		Sig. (2-tailed)
		0.000
		N
		365
	Financial Goals 2	Correlation Coefficient
		.342**
		Sig. (2-tailed)
		0.000
		N
		365
	Profitability 1	Correlation Coefficient
		.514**
		Sig. (2-tailed)
		0.000
		N
		365
	Profitability 2	Correlation Coefficient
		.586**
		Sig. (2-tailed)
		0.000

	N	365
Profitability 3	Correlation Coefficient	.590**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 1	Correlation Coefficient	.563**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 2	Correlation Coefficient	.630**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 3	Correlation Coefficient	.624**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 4	Correlation Coefficient	.562**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 5	Correlation Coefficient	.644**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 6	Correlation Coefficient	.677**

	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 7	Correlation Coefficient	.505**
	Sig. (2-tailed)	0.000
	N	365
Internal Perspective 8	Correlation Coefficient	.434**
	Sig. (2-tailed)	0.000
	N	365
Customer 1	Correlation Coefficient	.614**
	Sig. (2-tailed)	0.000
	N	365
Customer 2	Correlation Coefficient	.669**
	Sig. (2-tailed)	0.000
	N	365
Customer 3	Correlation Coefficient	.659**
	Sig. (2-tailed)	0.000
	N	365
Customer 4	Correlation Coefficient	.615**
	Sig. (2-tailed)	0.000
	N	365

Customer 5	Correlation Coefficient	.619**
	Sig. (2-tailed)	0.000
	N	365
Learning and growth 1	Correlation Coefficient	.543**
	Sig. (2-tailed)	0.000
	N	365
Learning and growth 2	Correlation Coefficient	.530**
	Sig. (2-tailed)	0.000
	N	365
Learning and growth 3	Correlation Coefficient	.574**
	Sig. (2-tailed)	0.000
	N	365
Learning and growth 4	Correlation Coefficient	.564**
	Sig. (2-tailed)	0.000
	N	365
Score Total Organizational Performance	Correlation Coefficient	1.000
	Sig. (2-tailed)	
	N	365

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

## Annex III: Questionnaire



### Addis Ababa University College of Business & Economics

#### **A Questionnaire to be filled by employees of Banks.**

Dear respondent,

My name is Enkuselassie Bahru. I am a business administration graduating student from Addis Ababa University, College of business and Economics.

This questionnaire is designed to collect data which will be used in a research that will be submitted in partial fulfillment of the requirements for Masters of Business Administration. The objective of the questionnaire is to collect data about your opinion regarding the Effect of strategic management on organizational performance of private commercial banks in Ethiopia. The questionnaire has five parts. Please note that your participation on this questionnaire is voluntary. Your responses gathered through this questionnaire will only be used for academic purposes and will be kept confidential. Please kindly provide your honest responses for all the items in the questionnaires, as your honest answer greatly contributes to the success of the study.

I would like to thank you in advance for your participation. If you have any doubt, please do not hesitate to contact me through the following address.

Regards.

Enkuselassie Bahru

Tel: 09-44-11-14-00

E-mail: [enkuselassie1988@gmail.com](mailto:enkuselassie1988@gmail.com)

**Part I: General Information**

Please use a tick mark (√) to answer the questions below.

1. Gender

Female  Male

2. Age Group

18-30 Years old  31-45 Years old   
 46-60 Years old  above 61 Years old

3. Educational Background?

College Diploma  BA Degree   
 Post graduate degrees

4. Name of your bank?

Dashen Bank  Bank of Abyssinia   
 Lion International Bank  Debub Global Bank

5. How long have you worked in your Bank?

Less than one year  1 – 5 Years   
 6 – 10 Years  More than 10 Years

6. Your Current Position?

Clerical & non-managerial  Lower Management   
 Middle Management  Top Management

**Please respond to the following questions by putting a tick mark among the provided scales based on your opinion.**

Questions	Rating				
	1	2	3	4	5
<b>Part II. Strategy Formulation</b>					
<b>1. Vision Statement</b>					
Does your organization have a vision statement? (5 -if YES 1 -if NO)					
When was it last updated? (5 -if in the last year, 4 -if in the last 2 years, 3 -if in the last 3 to 5 years, 2 – if in the last 6 – 10 years etc.)					

Is the vision statement relevant to the bank's activities and mandate? (5 -if very relevant, 1 -if not relevant at all)					
<b>2. Mission Statement</b>					
Has your bank developed a mission statement? (5 – if Yes, 1 – if No.)					
When was it last updated? (5 -if in the last year, 4 -if in the last 2 years, 3 –if in the last 3 to 5 years, 2 – if in the last 6 – 10 years etc.)					
Do you feel that your current mission statement is compatible with the activities being carried on by the bank? (5 –if strongly agree 1 -if Strongly Disagree)					
How would you rate participation in developing the mission statement by stakeholders? (5 –very involved 1 –not involved at all)					
<b>3. Understanding Values</b>					
Has your bank defined a set of value statements? (5 -if Yes 1 -if No)					
When was it last updated? (5 -if in the last year, 4 -if in the last 2 years, 3 –if in the last 3 to 5 years, 2 – if in the last 6 – 10 years etc.)					
How would you rate your understanding of the bank's value statements? (or values if formal statements have not been developed)					
<b>4. Strengths, Weaknesses, Opportunities and Threats Analysis (SWOT Analysis)</b>					
Has your bank conducted a SWOT analysis? (5 -if Yes 1 -if No)					
How would you rate the competencies of your bank to conduct a SWOT analysis?					
How would you rate the priority that your bank places on the SWOT analysis process?					
How would you rate the importance of the SWOT analysis process to the effective operation of your bank?					
Is a SWOT analysis employed when dealing with significant issues outside of strategic planning? (Score 5 - for regularly 1 - for never)					
<b>5. Establish Long Term Objectives</b>					
Has your bank established long term objectives? (5 -if Yes 1 -if No)					
How important is it to establish long-term objectives for your bank? (5-very important 1 -not important at all)					
<b>6. Generate Strategies</b>					
Rate your bank's success/practice of generating strategies to deal with issues.					

How important is it to generate strategies to deal with issues for your bank? (5 -very important 1 -not important at all)					
<b>7. Selecting Strategies to Pursue</b>					
Does your bank select strategies to address issues that confront the bank? (5 -if Yes 1 -if No)					
Rate the importance of selecting strategic solutions to address issues that confront your bank. (5 -very important 1 -not important at all)					
<b>Part III. Strategy Implementation</b>					
<b>1. Policy Support</b>					
Does your bank maintain a policy manual? (5 -if Yes 1 -if No)					
When was the bank policy updated? (5 -if in the last year, 4 -if in the last 2 years, 3 -if in the last 3 to 5 years, 2 - if in the last 6 - 10 years etc.)					
Rate the relevance of your bank’s policies to current bank activities? (5 -very relevant 1 -not relevant at all)					
<b>2. Financial Capacity.</b>					
Rate your bank’s financial capacity to implement strategies.					
Rate the commitment in your bank to provide financial resources to support the implementation of strategic initiatives. (5 – very committed 1 –not committed at all)					
<b>3. Motivation and Ownership</b>					
Rate the motivation to maintain and support the implementation of strategic initiatives by stakeholders.					
Rate the “ownership” taken to the implement strategic initiatives by stakeholders					
<b>4. Board Support</b>					
Rate your board’s commitment and support to the implementation of strategic initiatives.					
Rate the performance of your Board as it relates to the delivery of support to strategic initiatives. (As opposed to “talking the talk”)					
<b>5. Organizational Structure</b>					
Rate how appropriate the current structure of your bank is to support the implementation of strategic initiatives. (5 –very appropriate 1 –not appropriate at all)					

Rate the effectiveness of your current governance model as it relates to the implementation of strategic initiatives. (5 –very effective model 1 –not effective at all)					
<b>6. Open to Change</b>					
Rate your bank’s readiness for organizational change. (5 –very prepared 1 –not prepared at all)					
Rate the willingness to accept and implement change (5 –very open 1 –not open at all) by all stakeholders:					
<b>7. Human Resources</b>					
Rate the human resource capability to manage and implement a change process or new strategic direction.					
Rate the competencies of your bank’s staff to plan, manage and implement strategic initiatives.					
<b>Part IV. Strategy Evaluation</b>					
<b>1. Assessment</b>					
Rate your bank’s current practices as they relate to the ongoing assessment of strategic initiatives.					
Rate your bank’s performance in communicating assessment results to the stakeholders.					
<b>2. Measure Performance</b>					
Has your bank developed a set of key performance indicators or some other form of accountability to track the success of strategic initiatives? (5 –for defined key performance indicators 1 –no indicators defined)					
Rate your bank’s ongoing evaluation practices as it relates to strategic initiatives. (5 –doing a great job on a regular basis 1 –no evaluation occurs)					
<b>3. Identify Where Corrective Action is Necessary</b>					
Rate your bank’s success at identifying corrective action when strategic initiatives are failing or could be improved.					
Rate your bank’s response time, after they acknowledge that a strategic initiative is failing.( 5 - Active, 1- is delayed response)					
<b>4. Assess Effect of Change/Participation</b>					
Rate your bank’s effectiveness at evaluating the Effect of changes subsequent to initial strategy formulation.					

Rate the level of participation in strategy evaluation (5 –very involved 1 –not involved at all) by stakeholders.					
<b>5. Moving Beyond Evaluation</b>					
Rate the attention paid to abandoning, adjusting or developing new strategies subsequent to evaluation of the initial strategies.					
Rate the relevance and suitability of the strategic management model to your bank.					
Rate the commitment to Strategic Management as the model of choice for your bank.					

**Please respond to the following questions by putting a tick mark among the provided scales based on your opinion.**

**1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly Agree**

<b>Part V. Organizational Performance</b>	1	2	3	4	5
<b>1. Financial Performance</b>					
<b>a. Financial goals</b>					
I have a good understanding of the financial goals of my bank.					
Maximizing profit is a major goal of my bank.					
<b>b. Profitability</b>					
My bank is achieving its desired level of profit.					
I am satisfied with the current level of profitability of my bank.					
The profitability of my bank is better than competitors.					
<b>2. Internal perspective</b>					
I am satisfied with the working space in my office.					
I am satisfied with the facilities and equipment provided by my bank.					
The risk taking culture in my bank is better than that of competitors.					
My bank continuously introduces new products and services to meet the needs of customers.					
There is no case in our bank of employees leaving for internal reasons.					
The trust of employees on leadership is high.					

The trust of employees among themselves is strong.					
As an employee I feel committed to my bank.					
<b>3. Customer</b>					
The number of customer complaints has decreased overtime.					
We deal with customer complaints faster than our competitors.					
We retain existing customers and attract new ones.					
The image of the bank in the eye of customers has improved.					
The market share of my bank in the industry is improving overtime.					
<b>4. Learning and growth</b>					
My bank gives priority to building the capacity of its employees through training and development.					
I am satisfied with the training that I have received from my bank.					
The skill and knowledge that I have obtained from the training is applicable to my work.					
The training helps me to improve my performance.					

**Thank you for your time!!**