Organizational Performance of Financial Institutions in Batticaloa District

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Abstract- Measuring the organizational performance is an important issue in researches. Organizational performance can be measured in different perspectives. Each perspective of measurement is unique. Several unique determinants can be used to measure organizational performance. Performance measurements become an important concept to pay attention in recent years due to different organizational objectives. In the beginning, performance was measured by financial measurements and also it is being measured by non-financial measurements. There is still significant knowledge gap on measurement of performance. This research paper examines the operational measurement of organizational performances. Conceptual framework is developed based on Carton (2004). Organizational performance is measured by customer satisfaction, employee commitment, and corporate reputation. Questionnaire is developed and given to customers of Financial Institutions in Batticaloa District. Findings shows that there is high level of organizational performance existed among Financial Institutions in Batticaloa District.

Index Term- Organizational Performance

I. INTRODUCTION

Financial institutions are backbone of Sri Lanka and it has vital role to achieve the sustainable economic growth. It involves in monetary activities of country and their performance impacts other sectors of economy. Finance sector could be affected due to many reasons such as financial crisis, bankruptcy, and poor management. These inverse circumstances can be monitored and safeguarded when Financial Institutions have proper organizational performance measures. But determinants of Financial Institutions’ performance have been taken place in the mind of the researchers to study different determinants. Therefore, this paper analyzes primary data to interpret organizational performance of Financial Institutions in Sri Lanka.

II. LITERATURE REVIEW

Organizational performance is organization’s ability to achieve organizational objectives by using organizational resources effectively and efficiently (Daft, 2000). According to Bourguignon (1995), performance is an action or result of action to achieve success beyond benchmark. Some authors argue that performance is linked with efficiency and effectiveness (Neely, Gregory & Platts, 1995). Santos & Brito (2012) states that performance is sub set of organizational effectiveness that is incorporated with operational and financial measures. Organizational effectiveness is broader concept to attain performance which is based on organizational theory (Cameron & Whetten, 1983). The organization’s accomplishment is defined by its performance over certain timeframe (Mohammed et al., 2014). Firms permits different performance over different timeframe for finding measurement for it. Organizational performance entails to ascertain usage of resources to achieve organizational performance (Gadenne & Sharma, 2002; Madu, Aheto, Kuei & Winokur, 1996). According to Venkatraman & Ramanujam (1986) and Sang (2005), there are various methods for measurement of organizational performance. The first is quantify) and judgmental methods, the second criteria is such as financial (e.g. profit, sales) and operational (e.g. customer satisfaction, quality), and the third is primary (from organization) and secondary (from databases) data bases. According to Hermalin and Weisbach (2003), performance is categorized into two measurements. The first is used from the beginning which is accounting performance and it is included include profit rate, ROE (Return on equity), ROA (return on assets), long-term profitability, sales growth rate and so on. The second is non-financial measures such as employee commitment & satisfaction, customer satisfaction, reputation, turnover rate, quality of products/services and some other variables in the organizational aspects. Carton (2004) explored those four primary categories of overall organizational performance variables used in recent empirical research identified such as accounting
measures, operational measures, market-based measures, and survival measures.

This paper focuses on operational measures. Mostly researches focus on ROE, ROA, and ROCE as financial measures (Velnamby, 2013). However, management accounting researches state authors should not be limited to focus on financial measures (Otley, 1999; Norreklit, 2000). Because of that, now companies started to focus on non-financial measures to provide clear picture of their current situation about their company (Ittner and Larcker, 2001; Speckbacher et al., 2003). Financial data are not often published, when data are available to public and it includes financial performance (Sampienza et al., 1988; Geringer & Hebert, 1991). On other hand, Carton (2004) indicated that most of the measures in this category require primary data from management in the form of their assessment of their own performance, which may lead to questions of the validity of the responses. To solve this problem, researcher measures the organizational performance using customers’ responses rather than employees or management of the companies.

Carton (2004) asks critical question that researchers must answer in using operational measures of performance is whether the measures are antecedents to performance or represent actual performance. In this research, Customer satisfaction, employees’ commitment, and corporate reputation dimensions were used in the references of Carton (2004), Bayoud (2012) and Yildiz & Karakas (2012).

A. Customer Satisfaction

Customer satisfaction can be defined as the feeling or attitude of a consumer toward a product or service after it has been used (Metawa & Almossawi, 1998; Wells & Prensky, 1996). Oliver (1980) explained that customer satisfaction entails the full meeting of customer expectations of certain products and services. If the perceived performance matches or even exceeds customers’ expectations of service, then they will be satisfied. If it does not, then they are dissatisfied (Wulf, 2003). Customer satisfaction has become an important measure of firm performance and consequently an important area of interest in the accounting and finance research literature (Khondaker & Mir, 2011). Omango (2010) stated that financial institution is a customer oriented service industry, therefore, the customer is the focus and customer service is the differentiating factor. The business depends up on client services and the satisfaction of the customer and this is compelling them to improve customer services and build up relationship with customers. The success of a business depends on whether it creates a satisfied customer (Drucker, 1974). A great deal of marketing research has found positive effects of customer satisfaction. Satisfied customers tend to repurchase more (Brady & Cronin, 2001), spread positive words about the focal firm (Swanson, 2003). Banker et al. (2000) identified the relationships between customer satisfaction and governance indicator like firm performance. They have established that investment in customer relationships provides the basis for developing strategies for creating customer value, and that such strategies provide the foundation for sustainable competitive advantage leading to solid financial performance (Khondaker, 2010). Defining performance as the satisfaction of stakeholders (Conolly, Conlon, & Deustch, 1980; Hitt, 1988; Zammuto, 1984) helps to differentiate between antecedents and performance outcomes. In this case, customer satisfaction is clearly also an outcome (using the customer – a stakeholder – perspective) and thus part of firm performance.

The use of stakeholders’ satisfaction as firm performance was also adopted by a large number of different authors (Agie, Mitchell, & Sonnenfield, 1999; Clarkson, 1995; Kaplan & Norton, 1992; Richard et al., 2009; Venkatraman & Ramanujam, 1986; Waddock & Graves, 1997). In service industry, customer satisfaction is the key to success. A positive relationship exists between customer satisfaction, employee satisfaction and perceived service quality (Naseem et al., 2011).

B. Employee Commitment

Employees are considered one of the most important factors in a firm; they affect the success of an organization (Bayoud, 2012). Ideally, this is a central purpose of human resource management and its role in enhancing organizational performance (Baker, 1999; Black and Lynch, 1997; Huselid, 1995; Ichniowski et al., 1996; Konzelmann, 2003; Pfeffer, 1998). Jaworski and Kohli (1993 as cited in Rettab et al. 2009) define
employee commitment as the extent to which a business unit’s employees are fond of the organization, and see their future tied to that of the organization, and are willing to make personal sacrifices for the business unit. Employee commitment can be defined as the degree to which the employee feels devoted to their organization (Akintayo, 2010). Ongori (2007) described employee commitment as an effective response to the whole organization and the degree of attachment or loyalty employees feel towards the organization. Zheng (2010) describes employee commitment as simply employees’ attitude to organization. This definition of employee commitment is broad in the sense that employees’ attitude encompasses various components. Employee commitment seems to be a crucial factor in achieving organizational success. Individuals with low levels of commitment will do only enough to work by. They do not put their hearts into the work and mission of the organization. They seem to be more concerned with personal success than with the success of the organization as a whole (Mohammed et al., 2014). The relationship between employee commitment and workers’ performance has been studied under various disguise. Khan et al. (2010) investigated the impact of employee commitment (Affective commitment, continuance commitment, and normative commitment) on employee job performance and the results revealed a positive relationship between employee commitment and employees’ job performance. Ali et al. (2010) found that there is positive relationship between corporate social responsibility and employee commitment as well as between employee commitment and organizational performance. They therefore concluded that organizations can improve their performance through employees’ commitment by engaging in social activities since such activities also include the welfare of employees and their families (Mohammed et al., 2014).

C. Corporate Reputation

Siltala (2006) stated that the most important competitive advantage that companies can have by assessments about what the organization is, how well it meets its commitments and conforms to stakeholders’ expectations, how effectively its overall performance fits with its socio-political environments.

Corporate reputation is also “a fundamental intangible element in the generation of competitive advantages for organization,” (Neville et al., 2005). Several of these differences are encapsulated in Fombrun’s (1990) much adopted definition of reputation as “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals”. Barnett et al (2006), in their work titled “Corporate Reputation: The Definitional Landscape”, proposed a definition of corporate reputation. They define the subject as observers’ collective judgment of a corporation based on assessments of the financial, social and environmental impacts attributed to the corporation over time. Karim (2006) declares that “although reputation is an intangible concept, research universally shows that a good reputation demonstrably increases corporate worth and provides sustained competitive advantage. A business can achieve its objectives more easily if it has a good reputation among its stakeholders, especially key stakeholders, such as its largest customers, opinion leaders in the business community, financiers, and suppliers as well as current and potential employees.

III. METHODOLOGY

A. Sample Design and Data Collection

The study population is customers of financial institutions. According to Central Banks of Sri Lanka (2016), there are 25 Licensed Commercial Banks (LCBs) & 7 Licensed Specialized Banks (LSBs), and 46 Finance & Leasing Companies. According to Insurance board of Sri Lanka (2017), there are 27 Insurance Companies. This paper studies financial institutions which are in the Batticaloa District. There are 13 Licensed Commercial Banks (LCBs) & 6 Licensed Specialized Banks (LSBs), 24 Finance & Leasing Companies, and 23 Insurance Companies in Batticaloa district. Thus, 66 financial institutions were considered as the population. Total numbers of financial institution were 66 in Batticaloa district. Selected financial institutions did not provide customer information due to confidentiality issues. Therefore, quota sampling
method was applied to select the customers of the selected financial institutions.

Questionnaire was used to measure Organizational Performance from Customers of financial institutions. It comprises two parts. Part 1 includes personal information such as Age, Gender, Family Income (monthly), Education, and Occupation. Part 2 includes research information and it comprised of statements on three variables such as Customers Satisfaction, Employee Commitment, and Corporate Reputation. Data were collected through closed ended statements in the questionnaire and Likert scale is used to obtain and measure organizational performance.

B. Data Evaluation

Univariate Analysis

Customers Satisfaction, Employee Commitment, and Corporate Reputation are measured through below mentioned decision criteria.

<table>
<thead>
<tr>
<th>Decision Criteria</th>
<th>Decision Attribute</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 \leq X_i \leq 2.5$</td>
<td>Low Level</td>
</tr>
<tr>
<td>$2.5 &lt; X_i \leq 3.5$</td>
<td>Moderate Level</td>
</tr>
<tr>
<td>$3.5 &lt; X_i \leq 5.0$</td>
<td>High Level</td>
</tr>
</tbody>
</table>

Where $X_i$ = mean values of an dimension/Variable

Bivariate Analysis

It measures association between the organizational performance dimensions through below mentioned decision criteria.

<table>
<thead>
<tr>
<th>Range</th>
<th>Decision attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>$r=0.5$ to $1.0$</td>
<td>Strong positive relationship</td>
</tr>
<tr>
<td>$r=0.3$ to $0.49$</td>
<td>Moderate positive relationship</td>
</tr>
<tr>
<td>$r=0.1$ to $0.29$</td>
<td>Weak positive relationship</td>
</tr>
<tr>
<td>$r=-0.1$ to $-0.29$</td>
<td>Weak negative relationship</td>
</tr>
<tr>
<td>$r=-0.3$ to $-0.49$</td>
<td>Moderate negative relationship</td>
</tr>
<tr>
<td>$r=-0.5$ to $-1.0$</td>
<td>Strong negative relationship</td>
</tr>
</tbody>
</table>

Note: Table 2 implies no correlation between two variables, if the range of $r$ is: $-0.1 < r < +0.1$.

IV. FINDINGS AND DISCUSSIONS

A. Personal Information

Among 125 customers, 52% of are male and 48% of are female; 7.2% of are below 20 of age, 22.4% of are 21-30 of age, 23.2% of are 31-40 of age, 24% of are 41-50 of age, and 23.2 of are above 51 of age; 12.8% of are student/undergraduate, 20.8% of are government employees, 20.0 of are semi government employees, 28.8% of are private/NGO employees, 8% of are self-employees, and 9.6% of are not having occupation; 4.8% of are below and equal to 10,000 of income, 38.4% of are 10,001 to 30,000 of income, 36.8% of are 30,000 to 50,000 of income, 10.4% of are 50,001 to 70,000 of income, and 9.6% of are above 70,000 of income. 4.0 of them have primary education, 17.6% of them have GCE O/L, 36% of them have GCE A/L, 24% of them are graduate, and 18.4% of have master/professional qualification.

B. Research Information

Reliability

Table 3: Cronbach’s Alpha Coefficient for Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Number of statements</th>
<th>Cronbach’s Alpha coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Satisfaction</td>
<td>5</td>
<td>0.688</td>
</tr>
<tr>
<td>Employee Commitment</td>
<td>6</td>
<td>0.712</td>
</tr>
<tr>
<td>Corporate Reputation</td>
<td>6</td>
<td>0.691</td>
</tr>
<tr>
<td>Organizational Performance</td>
<td>17</td>
<td>0.858</td>
</tr>
</tbody>
</table>

(Source: Survey data)

Cronbach’s alpha coefficient for variables is more than or equal to 0.6 and therefore all the dimensions are considered to be reliable.
Univariate Analysis

Level of Customer Satisfaction

Table 4: Level of Customer Satisfaction

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Decision Attribute</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 \leq X_1 \leq 2.5$</td>
<td>Low Level</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>$2.5 &lt; X_1 \leq 3.5$</td>
<td>Moderate Level</td>
<td>5</td>
<td>4.0</td>
</tr>
<tr>
<td>$3.5 &lt; X_1 \leq 5.0$</td>
<td>High Level</td>
<td>119</td>
<td>95.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>125</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mean = 4.40  SD = 0.46  CV = 0.10  
(Source: Survey Data)

The dimension of Customer Satisfaction has high level at its individual characteristic attribute in the Organizational Performance (Mean $X_1 = 4.40$). In addition, most of the respondents expressed the common opinion regarding the dimension of Customer Satisfaction (SD = 0.46). It is noted that about 95.2% of respondents have high level of dimensional attribute, while only about 4.0% and 0.8% of respondents have moderate level and low level respectively.

Level of Employee Commitment

Table 5: Level of Employee Commitment

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Decision Attribute</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 \leq X_2 \leq 2.5$</td>
<td>Low Level</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td>$2.5 &lt; X_2 \leq 3.5$</td>
<td>Moderate Level</td>
<td>8</td>
<td>6.4</td>
</tr>
<tr>
<td>$3.5 &lt; X_2 \leq 5.0$</td>
<td>High Level</td>
<td>116</td>
<td>92.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>125</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mean = 4.31  SD = 0.45  CV = 0.10  
(Source: Survey Data)

The dimension of Employee Commitment has high level at its individual characteristic attribute in the Organizational Performance (Mean $X_2 = 4.31$). In addition, most of the respondents expressed the common opinion regarding the dimension of Employee Commitment (SD = 0.45). It is noted that about 92.8% of respondents have high level of dimensional attribute, while only about 7.2% of respondents have moderate level dimensional attribute.

Level of Corporate Reputation

Table 6: Level of Corporate Reputation

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Decision Attribute</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 \leq X_3 \leq 2.5$</td>
<td>Low Level</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>$2.5 &lt; X_3 \leq 3.5$</td>
<td>Moderate Level</td>
<td>9</td>
<td>7.2</td>
</tr>
<tr>
<td>$3.5 &lt; X_3 \leq 5.0$</td>
<td>High Level</td>
<td>116</td>
<td>92.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>125</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mean = 4.24  SD = 0.47  CV = 0.11  
(Source: Survey Data)

The dimension of Corporate Reputation has high level at its individual characteristic attribute in the Organizational Performance (Mean $X_3 = 4.24$). In addition, most of the respondents expressed the common opinion regarding the dimension of Corporate Reputation (SD = 0.47). It is noted that about 92.8% of respondents have high level of dimensional attribute, while only about 7.2% of respondents have moderate level dimensional attribute.

Level of Organizational Performance

Table 7: Level of Organizational Performance

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Decision Attribute</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.0 \leq X_4 \leq 2.5$</td>
<td>Low Level</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>$2.5 &lt; X_4 \leq 3.5$</td>
<td>Moderate Level</td>
<td>8</td>
<td>6.4</td>
</tr>
<tr>
<td>$3.5 &lt; X_4 \leq 5.0$</td>
<td>High Level</td>
<td>117</td>
<td>93.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>125</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Mean = 4.32  SD = 0.39  CV = 0.09  
(Source: Survey Data)

Organizational Performance has high level at its individual characteristic attribute (Mean $X_4 = 4.32$). In addition, most of the respondents expressed the common opinion regarding the dimension of Organizational Performance (SD = 0.39). It is noted that about 93.6% of respondents have high level of dimensional attribute, while only about 6.4% of
respondents have moderate level dimensional attribute.

Bivariate Analysis

Table 8: Correlation Analysis: Pearson Correlation

<table>
<thead>
<tr>
<th></th>
<th>CSA</th>
<th>EC</th>
<th>CR</th>
<th>OP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSA</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EC</td>
<td>0.643 **</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CR</td>
<td>0.569 **</td>
<td>0.624 **</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>OP</td>
<td>0.856 **</td>
<td>0.874 **</td>
<td>0.853*</td>
<td>1.000</td>
</tr>
</tbody>
</table>

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

CSA = Customer Satisfaction, EC = Employee Commitment, CR = Corporate Reputation, and OP = Organizational Performance

According to table 8, there is strong positive relationship between customer satisfaction and organizational performance (0.856, p < 0.01), strong positive relationship between employee commitment and organizational performance (0.874, p < 0.01), strong positive relationship between corporate reputation and organizational performance (0.638, p < 0.01), and strong positive relationship between code of conduct and corporate governance (0.675, p < 0.01).

V. CONCLUSION

This study has been concluded to examine organizational performance of financial institutions in Batticaloa district. Findings show that organizational performance is at high level in Batticaloa district. Customer satisfaction, employee commitment, and corporate reputation have contributed to achieve organizational performance. Overall finds shows that strong positive relationship among dimensions towards organizational performance of financial institutions in Batticaloa district.

REFERENCES


