STRATEGIC PLANNING AND BANK MANAGEMENT IN NIGERIA: ISSUES FOR POLICY CONSIDERATION

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Abstract

The study researched the bank management and strategic planning using 21 banks as the focus. Data were collected through the use of Questionnaire. The population was restricted to banks staffs. The respondents fully completed the sample unit of 392 from the sample frame and a non-probability technique called Purposive or Judgmental Sampling was used. Data were subjected to a Regression and correlation analyses. The Questionnaires were distributed to staffs of the bank and result that there is no significant relationship between bank management, strategic planning and bank distress meaning that there are others factors which ultimately determine bank distress such as the government economic policies. The Government should consider giving the management of banks suspected of failing more time or ultimatum to turn things around and review the cashless or plastic money policies that the society and economy is not ready for due to poor infrastructure and awareness.

Keywords: Strategic planning; strategic flexibility; bank management

1.0 Introduction

Researchers, past and present, have investigated the effects of formal strategic planning on financial performance in business organization. Many have concluded that there is no consistent association between the strategic planning process and performance (Cappel, 1990; Greenley, 1986; Leontiades & Tezel, 1980; Orpen, 1985; Robinson & Pearce, 1983). In response to studies highlighting the impact of strategic planning on firm performance (Fang et al., 2007) and (Lu and Beamish, 2001), recent research has seen a greater emphasis on the strategic process rather than only on the strategy content that Hofer (1975) proposed in his early study.
Spanos et al. (2004) provided a thorough conceptualization of strategic planning. According to them (2004), planning is an attitude and a process concerned with the future consequences of current decisions. Formal strategic planning links short, intermediate, and long-range plans. Strategic planning does not attempt to make future decisions or even forecast future events. It need not replace managerial intuition and judgment with massive detailed sets of plans.

They (2004) argued for the importance of strategic planning, providing keen insight into overcoming the barriers and biases associated with planning failures. However, research by Steiner and others is founded in the critical assumption that planning is important. But the debates rages on in the literature. The key question remains: Is there really a link between planning and performance?

The literature is inundated with the apparent advantages of planning, most notably its ability to improve the fit between the organization and its external environment (Im and Workman, 2004). Others have argued that planning aids in the identification of future marketing threats and opportunities, elicits an objective view of managerial problems, creates a framework for internal communication, promotes forward thinking, and encourages a favorable attitude to change (Teasley et al., 2009). Further, there are intrinsic benefits that accrue as a result of the planning process, including the positive effects of planning on local employment and the economy (Greenley, 1986).

(Eisenhardt and Martin, 2000) also provided support for the benefits of planning, identifying four roles of formal strategic planning. In the public relations role, formal strategic planning is intended to impress or influence outsiders. The information role provides input for management decisions. The group therapy role is intended to increase organizational commitment through the involvement of people at all levels of the organization in strategic planning. Finally, the direction and control role is fulfilled when plans serve to guide future decisions and activities toward some consistent ends.

According to (Grant, 2004), the strategic planning process is the product of the best minds inside and outside the corporation. The process considers future implications of current decisions, adjusts plans to the emerging business environment, manages the business analytically, and links, directs, and controls complex enterprises through a
practical, working management system. This process plays a vital role in firm performance (Grant, 2004).

Cartwright (1987) suggested that effective planning is not as rational and analytical as it has been portrayed in the literature. He argues for the lost art (rather than science) of planning. He contends that planning is both (1) a generic activity whose success determinants are partially independent of the area in which it is applied, and (2) an area where judgment, intuition, and creativity are still important.

Robinson and Pearce (1984) argued that formal strategic planning is a conceptual activity suited solely to larger firms and therefore has no effect on the financial performance of small firms. Wortman (1986) reviewed a set of small business planning-performance studies in the context of a broad survey of the methodologies employed in the small business literature. Wortman developed typologies but did not focus on the particular issue of the effect of formal strategic planning on firm’s performance. However, he clearly addressed the need for continued refinement in planning-performance relationships and recommended the use of sophisticated statistical techniques for addressing such substantive research questions.

Greenley (1986) agreed with Robinson and Pearce and others to follow (Cartwright, 1987; Langley, 1988; Ramanujam & Venkatraman, 1987), but provided an alternative perspective, suggesting that there may not even be a positive relationship between planning and performance. Specifically, Greenley noted the face validity of the planning-performance linkage, but reports that existing empirical data has not yet substantiated the relationship.

(Teasley et al., 2009) provided limited support for Greenley's contention. However, their empirical analysis of high and low performing firms elicited significant differences between the groups that relate to the planning process. Specifically, their research examined the quality of the planning. For example, high performing firms tend to commit resources to planning and promote line-staff cooperation substantially more than low performing firms. Low performers may plan; they just may not plan effectively.

Pearce, Freeman, and Robinson (1987) examined the perceived substantive contributions of each of eighteen existing studies, concluding that empirical support for the normative suggestions that all small firms should engage in formal strategic planning has been
inconsistent and often contradictory. In a similar vein, Schwenk and Shrader (1993) recently meta-analyzed fourteen studies on formal strategic planning and performance in small firms. While they did not find that planning necessarily improves performance, they argued against the assertion that strategic planning is only appropriate for large firms. As such, they concluded that strategic planning promotes long-range thinking, reduces the focus on operational details, and provides a structured means for identifying and evaluating strategic alternatives. Since this was the first review that clearly demonstrated the planning-performance link across studies, it strengthened the case for recommending the use of strategic planning in all firms, regardless of size.

(Eisenhardt and Martin, 2000) appears to have empirically established some kind of a planning-performance linkage. Sinha examined 1087 decisions made by 129 Fortune 500 firms between 1982 and 1986. They concluded that characteristics of the decisions accounted for 15 percent of the variance in data and therefore should be regarded as important determinants of the contribution planning makes to decision making. However, they concede that the quality of planning is critical to the relationship.

Bank management and strategic planning when viewed in the context of distressed banks in Nigeria brings one to the frightening realization that when a bank goes distressed thousands of people suddenly become jobless, the effect on their lives and people depending on them is devastating, people lives suddenly grind to a halt, school fees don’t get paid, electricity, phone bills and so on, don’t get paid and ultimately the effect on the economy is negative because a lot of people are no longer able to contribute to the economy either by paying taxes or simply by buying one thing or the other. Distressed banks are generally viewed as a sign that an economy is not doing well so when banks start shutting down, investors lose confidence and new investments don’t come in.

The broad objective of this study is to investigate the effect of Bank management and strategic planning on bank success or failure. This study was embarked upon as a result of the importance of management and strategic planning to the progress or profitability of bank in the contemporary world. It will establish whether or not banks in Nigeria are moving with this development, the study will have both academic and social significance. Thus, the study will be of benefit to scholars, public relation experts, organizations, and the general public at a large, and provide sufficient literature for similar studies.
This study was arranged into four sections. Section one shall focus on the introduction, problem statement, objectives of the study, justification of the study. Section two centered on the theoretical framework and review of the relevant literatures. Section three shall be devoted to research methodology, while the last section shall be on discussions and recommendations.

2.1 Literature Review
There is a growing body of literature examining the effects of formal strategic planning on the financial performance of small firms (e.g., Robinson, Pearce, Vozikis, & Mescon, 1984; Bracker, Keats, & Pearson, 1988; Shrader, Mulford, & Blackburn, 1989). There are also numerous field studies examining the effects of various forms of strategic and operational planning activities on a variety of financial performance measures for both large and small firms (Teasley et al., 2009). Researchers who have undertaken these studies, especially those of small firms, have drawn conflicting conclusions: some claim that formal strategic planning provides structure for decision making, helping small business managers take a long-term view, and, in general, benefits small firms; others conclude that formal strategic planning has no potential payoff for small firms because it is a heady, high-level, conceptual activity suited solely to large firms and therefore has no effect on the financial performance of small firms.

Armstrong's 1982 review of twelve strategic planning and performance studies included a detailed examination of the formal planning independent variable. Armstrong compared studies as to whether they considered five component parts of the formal planning process: (1) setting of objectives, (2) generating strategies, (3) evaluating strategies, (4) monitoring the process, and (5) commitment to the process. Armstrong also compared studies on the bases of the situation and results, and then used the ratings of experts to assess the results of formal planning; cautiously concluding that formal planning benefitted firms.

Im and Workman (2004) came to a different conclusion from Armstrong. Their comprehensive review of over sixty studies classified the planning and performance literature into three categories: formal long-range planning and performance, planning typologies and performance, and planning salience and performance. They reviewed types of samples and performance measures as well, and concluded that there is no
apparent systematic relationship between formal planning and performance and that there is great disparity in the measurement of formal planning across studies. They recommended the use of hierarchical scales and uniform measurement for future research.

Eisenhardt and Martin (2000) authored a comprehensive review of the literature examining the effects of formal strategic planning on performance for small firms. They argued that knowledge about strategic issues is the domain of large firms that small firm knowledge of strategic planning is, on the whole, inadequate, and that formal strategic planning has not been a popular practice among small firms because they have neither the time nor staff to invest in strategic planning. Rather, the manager of a small firm must be more concerned with the day-to-day operational problems of running the firm.

There are three frequently cited reasons why top managers pursue changes in strategy (Parnell, 1994). First, a change in strategy may appear attractive is that desired performance levels are not being attained by the organization. In many cases, top managers may believe that a change in strategy will improve the ability of the business to generate revenues or profits, increase market share, and/or improve return on assets or investment. Many studies have concluded that declining profitability is the most common catalyst for strategic change (Grant, 2004).

Second, an environmental shift may necessitate strategic change to maintain alignment. Such shifts may result from changes in either the macro environment (e.g., new regulations, social forces, demographic changes, etc.) or the industry environment (e.g., new competitors, changes in competitor strategies, etc.). Changes in competition and technology necessitate a change in the knowledge base within the organization if it is to survive (Eisenhardt and Martin, 2000).

According to the population ecology perspective (Eisenhardt and Martin, 2000), the environment determines which organizations will survive and which ones will not. New firms better suited to the changing environment constantly replace existing ones. Competitors constantly struggle for existence by seeking to procure additional resources. As such, strategic change can be seen as a means to access additional resources and survive in a turbulent environment (Teasley et al., 2009).
Third, strategic change can enhance effective resource utilization. Proponents of the resource-based perspective have noted that competitive advantage often occurs from such organizational attributes as informational asymmetries, culture, resource accumulation and the minimization of transaction costs (Im and Workman, 2004). Hence, as organizational human and capital resources evolve, changes in strategy become necessary to fully utilize the resources available to the organization.

Resource shifts necessitating strategic change are more prevalent in some organizations than in others. Researchers have found that organizational performance, age, and length of tenure of the founding entrepreneur influence the degree to which a founding strategy endures and thus, the prospects for strategic change (Teasley et al., 2009). In fact, new CEOs are often recruited to attempt strategic changes upon entering the organization (Lu and Beamish, 2001).

Strategic planning used to mean a fairly rigid commitment for a set number of years. But try locking in a long-term plan today, and the world will pass you by. The turbulent business environment demands that corporate leaders make frequent strategic adjustments. Companies must be prepared to abandon their current course and launch off on a different path every time the market shifts or a new opportunity emerges. As the rate of change in the external environment increases, the bond between a company's strategic planning and business performance management (BPM) processes grows tighter. When planners realize they need to change direction, they must convince not only senior managers but also employees (Fang et al., 2007), and they have to communicate the value of the new plan and deliver results faster than ever before.

A flexible framework for strategic planning can help a company meet these needs. "Strategic flexibility" sounds like an oxymoron. "Strategy is about commitment -- to market positions, technologies, customers. Flexibility is about avoiding commitment, about creating the ability to bob and weave, to exploit whatever opportunities come along," says Michael E. Raynor, Ph.D., director at Deloitte Consulting in Toronto. "Strategic flexibility is a way to combine the power of commitment-based strategy with the benefits of flexibility in the face of an unpredictable environment."

Strategic flexibility is achievable through what Raynor calls "real options" planning. Rather than making a single, major capital purchase, the real options approach calls for a
number of relatively limited capital investments in a carefully defined set of potential growth areas. For instance, a utility developing a portfolio of real options might put 10 percent of its available capital spending into deregulated markets, 10 percent into nuclear power, 10 percent into turbine technology, 10 percent into merger and acquisition possibilities, and so on. The organization exposes itself to each of these market possibilities, watches how the market treats each commitment over time, and then channels additional funds into the most promising areas.

"A real option is a limited investment that creates high-leverage exposure to the upside of a market," says Raynor. "However, where financial options hedge financial risk, real options hedge strategic risk. Think of it this way: At a time when many companies eschew promising new technologies as too expensive or unproven -- technologies that might one day support or even save them -- a portfolio of real options constitutes strategy insurance, protecting, at an acceptable cost, your ability to capture worthwhile opportunities or to avoid disastrous consequences."

 Whilst the concept of strategy can be traced to early Chinese military strategy (Sun Tzu 500bc) business theorists have identified it within theory from around the 1960’s (Eisenhardt and Martin, 2000). Since the 1960’s strategic planning, according to Minzberg (1994) has had a cylical popularity with organizations as it gained and lost popularity much as a result of its limited success in failing to deliver expectations and results; namely creating wealth for organizations and shareholders. Im and Workman, (2004) suggests that this limited success is attributable not only to poor practices but it is also a function of ever rapidly increasing change of the business environment. This rapidly changing business environment causes uncertainty and brings into question the appropriates of strategic planning and how deal with uncertainty.

3.0 RESEARCH METHODOLOGY

Data were collected through the use of Questionnaire. The population was restricted to staffs across the troubled Nigerian banks. The respondents fully completed the sample unit of 392 from the sample frame and a non-probability technique called Purposive or Judgmental Sampling was used. The Questionnaire was designed to ensure that the respondents are not to suspect the answers. The questionnaire consists of two (2) Section A and B, Section A will contain the demographic and personal information about the respondent. They include respondents’ sex, age, marital status, educational qualification.
Section B will consist of questions, which are questions on the subject matter of this research work. In determining the validity of the research instrument employed in this study, the content validity was used from marketing experts. The reliability was achieved through test re-test method. The reliability co-efficient was done by finding the percentage ratio of the first outcome from the group to the second outcome from the group. A reliability co-efficient of 70% was gotten and this prompted the actual survey. The model specification includes:

BMgt = F (StrP, U_t)

Putting this mathematically, it becomes

BMgt = α_0 + α_1 StrP + U_t

Where:

StrP = Strategic Planning
BMgt = Bank Management
U_t = Error Term

<table>
<thead>
<tr>
<th>Dep.Var.: BMgt</th>
<th>Co-efficient</th>
<th>t-value</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>23.314</td>
<td>12.714</td>
<td>0.000</td>
</tr>
<tr>
<td>StrP</td>
<td>10.100</td>
<td>5.395</td>
<td>0.166</td>
</tr>
</tbody>
</table>

R 0.440
R^2 0.319
R^2 Adjusted 0.409
F- Ratio 13.947
Sig. 0.166
N 392

**Source:** *Computer Analysis (2012)*
Table 3.2   Correlation 2

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Degree of freedom</th>
<th>Level of sig.</th>
<th>Correlation co-efficient (r)</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>X,y</td>
<td>392</td>
<td>390</td>
<td>0.05</td>
<td>0.440</td>
<td>Sig.</td>
</tr>
</tbody>
</table>

**Source:** Trend Analysis of collected data, 2012

Correlation co-efficient \( (r) = 0.440 \)  \( N = 392 \)

### 4.1 Discussion

It should be noted that the questionnaire was framed in simple and straightforward language in such a way that anyone could answer the question easily.

Based on the results of the computation, since the \( t \) value (15.63) is more than the calculated \( t \) value (12.714), the calculated is said to be significant and as such we will accept the null hypothesis which states that “bank management and strategic planning has no significant effect on bank distress” and reject the alternate hypothesis which states that “bank management and strategic planning has significant effect on bank distress”.

The study researched the bank management and strategic planning using 21 Nigerian banks as the case study, questionnaires were distributed to staffs of the bank and result of the analyses gave an idea as to the level which bank management and strategic planning affects banks performance and showed that there is no significant relationship between bank management, strategic planning and bank distress meaning that there are others factors which ultimately determine bank distress such as government economic policies.

For any meaningful economic development to occur in any country emphasis has to be laid on creating enabling environment for banks to survive and flourish.

Bank workers who spoke to the researcher, made it clear that although bank management and strategic planning has a lot to do with bank success and distress, the prevailing economic situation is the ultimate decider. This project has afforded us the opportunity of having an insight into what bank management and strategic planning is and factors that affect banks distress.

It would also be necessary to conclude that, there are many factors that significantly constitute a threat to bank survival or distress in the nation. Following the analysis given so far on bank management and strategic planning, which showed that there is no
significant relationship between bank management strategic planning and bank distress.,
several problems were identified which hinders bank survival and growth, in view of this,
the following recommendation is made to enhance their growth and success.

(a) Government should put in place policies aim to helping banks to grow.
(b) Government should adopt holistic approach in tackling the numerous problems
affecting bank activities in the country.
(c) Government should consider giving executives of banks suspected of failing more
time or ultimatum to turn things around rather than announcing on various media
which is capable to making things worse.

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