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Effect of Organisational Structure and Competition on Organisational Performance in Libyan Commercial Banks

Ismail Elnihewi, Faudziah Hanim Fadzil, Rapiah Mohamed
Othman Yeop Abdullah Graduate School of Business, UUM, Malaysia
ime_2000@yahoo.com

Abstract: This paper investigates the relationship between contingency factors (organisational structure and competition) and organisational performance within Libyan commercial banks. 154 usable questionnaires from branch managers of Libyan commercial banks were investigated for the hypotheses of study. The results of this study indicate that the relationship between organisational structure and organisational performance is significant and positive. In contrast, the results of the study found that the relationship between competition and organisational performance is negative and insignificant.

Keywords: *Organisational structure and competition; organisational performance; Libyan commercial banks*

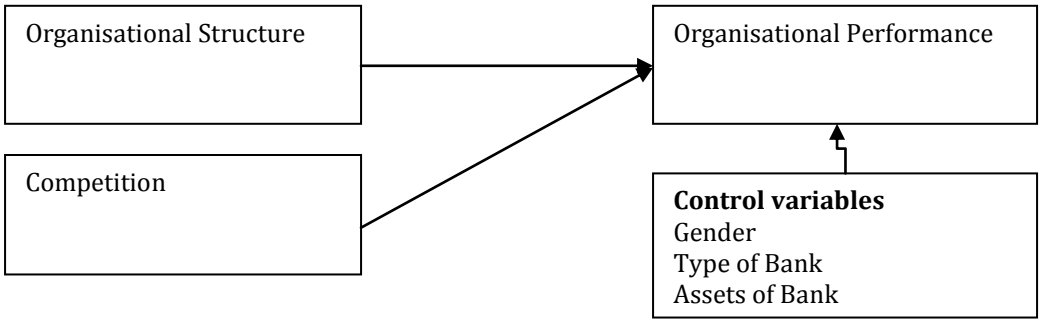
1. Introduction

Organisational performance refers to the organisational effectiveness to achieve the objectives of an organisation (Henri, 2004). The increasing in performance of banks has a significant impact on the development and economic growth in any country (Levine, 2005; Paradi & Zhu, 2012). The Libyan banking sector is the most important service sector; however it suffers from obvious weaknesses (Ahmed, 2010). In particular, the commercial banks that suffer from poor performance are represented in a high level of non-performing loans and decrease in revenues (CBL, 2012; Chamiea, Elfeturi & Abusneina, 1997; Gabgub, 2009). Although organisational performance is affected by multiple factors, the contingency factors have been widely recognised as important factors that can effect on organisational performance, particularly, organisational structure and competition (Hoque, 2004; Hussain & Hoque, 2002; Van der Stede, Chow & Lin, 2006). The organisational literature suggests that improved performance requires a management style that is related to organisational structure (e.g., Venkatraman, Henderson & Oldach, 1993). Furthermore, the performance increases when banks work in strong competition environment (Neely, 2005). This study deals the issues regarding by effect organization structure and competition on organisational performance. The next section is related to literature review and hypotheses of the study. The third section describes the methodology of the study. The fourth section presents the results and discussion. Finally, the fifth section gives conclusion and recommendations of the study.

2. Literature Review

The paper relies on the contingency theory to help explain the relationship between factors. The contingency theory suggests that the fit between contextual factors (competition and organisational structure), and the design of management control systems is related to superior organisational performance (Chenhall, 2003; Langfield-Smith, 1997). This study aims to investigate the influence of two contingency factors (organisational structure internally and competition externally) on organisational performance. The research framework of this study is presented in Figure 1.

Figure1: Research framework



Organisational Structure and Organisational Performance: The accounting literature indicates that less attention has been paid to the influence of organisational structure on organisational performance (Child, 1972; Lee & Yang, 2011; Miles, Snow, Meyer & Coleman, 1978). Although, the organizational structure is one of the important factors that effect on management accounting practices (Lorenzo, 2008). Furthermore, organisational structure is one of the mechanisms used to control conflicts, and it should have a significant effect on the firm's financial behaviour (Mayers & Smith Jr, 1981). Organisational structure is associated with organisational performance for aggregate and integrated information (Chenhall & Morris, 1986). The relationship between organisational structure with firm performance is very important (Meijaard, Brand & Mosselman, 2005). Therefore, the organisational structure has a significant positive effect on performance (Lai & Limpaphayom, 2003; Lee & Yang, 2011). Based on the discussion above, the hypothesis is presented as follows:

H1. There is a positive relationship between organisational structure and organisational performance.

Competition and Organisational Performance: Competition is a powerful contextual factor affecting performance (Lee & Yang, 2011). The competition is an important impact on the use of management accounting in Libya (Alkizza, 2005). The performance of banks in the presence of competition, such as low quality and price of services is considered the best (Neely, 2005). Competition effects on the firm's overall performance (Hussain & Hoque, 2002). Furthermore, Mia & Winata (2014) found that there a positive relationship between competition and financial performance. The previous mentioned issues explicitly show that competition can positively influence the organisational performance. Accordingly, this study hypothesis that:

H2. There is a positive relationship between competition and organisational performance.

3. Methodology

Data Collection: Data were collected by questionnaire survey from 485 Libyan commercial branches (CBL, 2012). Questionnaires were delivered to branch managers. The sample size of the study was 217 branches. However, only total of 154 usable questionnaires were received, with a response rate of 70 % were used for the analysis of the findings. Table 1 reports information on the sample branches' classification, gender, type of bank, and assets of the bank. The greatest proportion of gender (95%) was from the male, the most proportion of type of bank (75%) was from the public, and the greatest proportion of assets (47%) was between 1000 to15000 million of Libyan Dinar.

Table 1: Characteristics of Respondent Banks

Variable	Classification	Frequency	Percentage
Gender	Male	146	95
	Female	8	5
Types of Bank	Private	38	25
	Public	116	75
Banks Assets	Less than 1000	14	9
	Between 1000 to15000	73	47
	More than 15000	67	44

Measurement of Variables: The items of all variables are measured using a five-point Likert scale ranging from 1 "Strongly Disagree" to 5 "Strongly Agree.".

Organisational Structure: Organisational structure is adopted from Chia (1995), Gordon and Narayanan (1984), and Gosselin (2005). The manager branches are asked the extent of making these decisions by the top management of the bank for measuring the degree of decentralisation of decision-making. The mean score for the construct is 4.47, and the standard deviation is 0.7. The Cronbach Alpha coefficient is 0.78.

Competition: Competition is adopted from Hoque and Hopper (1997), and Libby and Waterhouse (1996), that developed from Lee and Yang (2011), which describes the branch's competitive position compared with their counterparts in the banking sector. The mean score for the construct is 3.62, and the standard deviation is 0.772. The Cronbach Alpha coefficient is 0.78.

Table 2: Measures of Competition

Variable	Items
Organisational structure	Pricing policies are set of services by the top management of the bank.
	Decisions on major changes are made only at the top management of the bank.
	Decision of hiring and firing of managerial personnel generally are made only by top management of the bank.
	Selection of large investments is usually made only at the top management of the bank.
	New service decisions are made only at the top management of the bank.

Table 3: Measures of Competition

Variable	Items
Competition	There is a high degree of market competition in the new service development faced by our branch.
	There is a high degree of competition in marketing the services that faced by our branch.
	Branch faces a high degree of competition to gain market share in services.
	The level of competition in the market for the major services of our branch is extremely intense.
	Behaviours of competing banks are taking a great threat to our branch.
	There is a high degree of market competition in the new service development faced by our branch.

Organisational Performance: *Organisational performance was measured from prior studies Khong and Richardson (2003), Ringim (2012), and Ringim, Razalli and Hasnan (2012).* This study used questionnaire for assessing bank's performance over the past three years. The mean score of the construct is 3.51, and the standard deviation is 0.62. The Cronbach Alpha coefficient is 0.88, indicating a satisfactory internal reliability for the scale.

Table 4: Measures of Organisational Performance

Variable	Items
Organisational Performance	The volume of current and saving account customers.
	The reputation of our branch in the banking sector.
	Revenues collected from fees on transactions.
	The customer service delivery in branch.
	The new services' development in the branch.
	Branch's share of the services in the banking market.
	Rate of speed of service provided to the customer.
	The financial performance targets achievement by branch.
	Rate of the yearly profit.
	The growth of branch deposit.
	The level of our customer satisfaction with our services.
	The volume of fixed deposit.

4. Results and Discussion

Table 5 presented the Pearson correlation coefficients for variables. Independent variables like organisational structure has a significantly influence on all variables in the model; some of them are positive direction and others are negative direction, while the competition has a significantly influence only on organisational structure in positive direction.

Table 6 shows investigated the results for the hypotheses of the study. Hypothesis 1 assumes that there is a positive relationship between organizational structure and organizational performance. The results presented in Table 6 shows that there is a positive and significant effect between organizational structure and organizational performance. Furthermore, the β value = 0.250 which indicate that this relationship is positive ($t = 2.901$, $P < 0.05$). Thus, hypothesis H1 is supported. Hypothesis 2 assumes that there is a positive relationship between competition and organizational performance. The results presented in Table 6 shows that there is an insignificant ($t = -.428$, $p > 0.10$) direct effect between competition and organizational performance. However, the β value = -.037 which indicates that the relationship is positive. Therefore, these findings not support hypothesis H2.

Table 5: Correlation Matrix for Variables

Variables	OS	C	OP
Organisational Structure (OS)	1		
Competition (C)	.333**	1	
Organizational Performance (OP)	.244**	.000	1

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

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

Table 6: Regression Model the Relationship between Organisational Structure and Competition, and Organisational Performance

Model	Coeff.(B)	Std. Error	t	Beta (b)	Sig
(Constant)	2.526	.476	5.307		.000
Organizational Structure	.232	.080	2.901	.250	.004
Competition	-.030	.069	-.428	-.037	.669
R^2		.106			
Adjusted R^2		.076			
F change		3.520**			

**** P < 0.001, *** P < 0.01, ** P < 0.05 and * P < 0.10.

Dependent Variable: Organisational Performance

One of the control variables (i.e. Type of bank-private and public) has a significant role in influencing the organisational structure through the level of making decisions, and on the nature of competition among banks. Consequently, this effect on the results of relationship between organisational structure and competition, and organisational performance.

5. Conclusion and Recommendations

This paper investigates the relationship between contingency factors (organisational structure and competition) and organisational performance within Libyan commercial banks. The paper used a framework of contingency theory to examine the study phenomena. The results found a significant relationship between organisational structure and organisational performance. This result also is consistent with other studies (Hao, Kasper & Muehlbacher, 2012; Lai & Limpaphayom, 2003; Lee & Yang, 2011). Furthermore, this result is in line with the contingency theory that suggests the effectiveness of organisation depends on the organisational design (Lee & Yang, 2011). Consequently, this result supports hypothesis 1. In contrast, the result of the study found that the relationship between competition and organisational performance is negative and insignificant (See Table 2). This result does not support the hypothesis of the study. However,

the result is consistent with other studies (Murayama & Elliot, 2012; Uddin & Suzuki, 2014). This is due to the low competition between the Libyan banks. In other words, owning of the Libyan state of major banks impedes competition for credit expansion and the development of services in general (Bank of Commerce & Development, 2013). Therefore, Hussain and Hoque (2002) indicated that if the competition is not significant in the financial industry, the banks would realise that there is a need to improve their service. In this case, the banks neglect to improve their services (quality, timeliness, and reliability) to satisfy customers. This in turn would affect the bank's overall performance. Thus, this result not support hypothesis 2.

This study has contributed to the knowledge of issues related to the organisational performance by investigations of the relationship between organisational structure and competition, and organisational performance in Libya. This would lead to the exchange of ideas between Libya and other countries on the most important factors affecting the performance, consequently leading to improve the performance in these countries. Hence, this study recommends that: First, banks should focus more on enhancing competition among each other that eventually will lead to encourage banks to improve their services to satisfy customers. This in turn would lead to increase the bank's overall performance. Second, other studies can use organisational structure factor as a moderator variable in the relationship between competition and organisational performance. Third, comparison between the results of the topic extracted from private banks and public banks. Finally, mixed methods such as survey and interviews can be used for further understand the relationships between variables. This might obtain stronger results.

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