# IDENTIFYING CRITICAL FACTORS OF EFFECTIVENESS OF BANKING SECTOR IN THE ERA OF GLOBAL UNCERTAINITIES

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#### **Abstract**

Organizational effectiveness can be referred to as the success of an organization to accomplish their mission and goals through their core competencies. Various approaches have been proposed by the research scholars to measure organization effectiveness. The present study has been conducted to point out the factors that can affect the success and effectiveness of the organization. The author has also tried to identify the important determinants of organizational effectiveness of banking industry. Some suggestions have been proposed to improve the effectiveness of the bank. It was identified that few factors like clarity of goals, employees' satisfaction, profit, customer satisfaction, latest technology, management style, collaboration of employees and management, size of the bank, external environment, low level of employee stress, motivation and sharing knowledge with other banks were critical for organizational success.

**Key Words:** Organizational Effectiveness. Banking, Employees Satisfaction, Goal Approach, Systems Approach, Organization

### **Background**

It has been stated that the effectiveness is the foundation of success. Therefore, organizational effectiveness is the measure of how successfully organizations accomplish their mission and goals through their core competencies. Organizations have been referred to as social entities, which comprise large and diverse group of people. Hence it is difficult to measure their effectiveness as they are large, diverse and fragmented. Definition of organizational effectiveness has been a matter of debate. The available literature on organizational effectiveness explores that the understanding about the concept of organizational effectiveness can vary with the nature of constructs.

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Economist and financial analysts define organizational effectiveness in terms of profit or return on investment while for a production manager it is the quality and quantity of the output. Gaertner & Ramnarayan (1987) defined organizational effectiveness as "ability of an organization to account successfully for its output and operations to its various internal and external constituencies"

# **Approaches to Measure Effectiveness**

Organizational effectiveness attracted the attention of research scholars and practitioners for the last few decades. The researchers are struggling to suggest an acceptance approach to measure the organizational effectiveness. They have proposed a number of models and approaches to be used as a measure for organizational effectiveness. These models as suggested by various scholars have been classified into four categories namely goal, systems, Internal process and multiple constituency approach. Goal Approach as suggested by David and Stanley (1999) and Steers (1977) emphasizes that effectiveness of an organization can be measured in terms of accomplishment of business goals or objectives. Systems Approach proposed by proposed by Evan (1976), Argyris (1964), Yutchman and Seashore (1967) and Pearson emphasizes that organizational effectiveness can be measured in terms of its ability to acquire inputs, process these inputs, channel the output, maintain stability and balance.

Internal Process as per the opinion of Rensis Likert (1950), Steers (1975) and Cameron (1981) can be used for measuring the organizational effectiveness. This approach emphasizes that internal variable like trust, teamwork, concern, leadership and communication are the various factors that affect organizational effectiveness and can be used for measuring organizational effectiveness. Multiple Constituency approach on the other hand, lays emphasis on degree to which an organization responds to demand and expectations of its strategic constituencies or its stakeholders as criteria of effectiveness. Various scholars who have contributed towards this approach are Conolly, Pennings and Goodman, Zammuto (1982) Laxmi, Roy and Yaday (1982).

Likert (1967) is of the opinion that there are three variables that determine the effectiveness of organization. These are casual variables, intervening variable and output or end result variables. Casual variables are those factors that influence the course of development within organization. These include leadership strategies, skills, and behavior and management decisions. Since these are the internal variable, hence, management can alter these. Intervening variables represent commitment to objective, motivation and morale

of its members. These manifest the current conditions of the internal state of the organizations. Whereas output or end result are the dependent variable that reflects the achievement of the organization. Majority of the managers evaluate the effectiveness of organization in term of output alone. Thus the effectiveness of business managers is often determined by net profits. Fiedler and Reddin have echoed the similar view points. However, factors like leader's effectiveness (Fiedler, 1967) in terms of group performance. Reddin argued that the effectiveness of a manager can be measured objectively by his profit centre performance.

#### **Review of Literature**

Various studies has been undertaken to find out the factors of organizational effectiveness. It has been highlighted that participative management (Angermeier et al, 2009), organizational structure (Santra and Giri, 2008), organizational culture (Shiva & Roy, 2008), team work (Chau, 2008), behaviour of leaders (Erkutlu, 2008), customer satisfaction (Usha et al, 2006), and human resource management (Hansberry, 2005) are some of the important determinants of organizational effectiveness. Kashefi (1972) established a relationship between value system and organizational effectiveness. Cameron (1978) strongly emphasized that four independent variables leadership style, technology; strategic planning and human resource development affect organizational effectiveness. He strongly argued that leadership style has a high relationship with organizational effectiveness however other three factors also play a role in making organization effective.

#### **Objectives of the Study:**

- 1. To point out the factors essential for organizational effectiveness.
- 2. To find out the most important determinant of effectiveness in banking industry.
- To suggest the factors which should be taken into consideration for improving organizational success

#### **Research Methodology**

The present study is an attempt to know the parameters of organizational effectiveness of banking industry in the changing global environment. In order to meet the above mentioned objectives the present study was based on both primary and secondary data. The primary data was collected with the help of a questionnaire through a survey conducted in the banks situated in Shimla city In order to determine the factors that determine

organizational effectiveness primary data was collected from the senior level managers, middle level managers and employees through a structured questionnaire. In order to identify factors affecting organizational effectiveness primary data was collected from the employees of the banks. Both managerial and non-managerial level employees were taken as a source of primary data However, research papers, agenda papers of the banks and journals were referred to collect secondary data

Both managerial and non-managerial employees filled up the second questionnaire. Quota sampling was used for the purpose of selecting the respondents as representatives of employees and managers of the banks. The Quota of the population which consisted of 35 percent employees,35 percent lower and middle level managers and 30 percent senior level managers so that each level of employees could participate and respond to the questionnaire. A sample size of 300 respondents was taken as representative for the entire population.

# Findings of the Study

The data collected through questionnaire was analyzed through various statistical tools like simple average, percentage, mean, tables etc. Principal component analysis was used to reduce the number of variables and to identify important factors of organization effectiveness. The perception of employees was assessed on a 5-point scale to find out the important factors of organizational effectiveness various factors essential for organizational effectiveness have been identified through review of literature and research work done by various scholars in this field. Table 1 records the mean score of each indicator of effectiveness of the banks. 19 variables were identified as the predictor of organizational effectiveness with the help of previous researches, expert's opinion and literature in the field.

However, it is clear that some factors like clarity of goals, employee satisfaction, profit, public image and goodwill, customer satisfaction, recruitment and selection, responsiveness and accountability of bank towards its customers, motivation of employees, internal communication were rated high by the managers while new and latest technology, sufficient number of employees in the bank, external environment, size of the a bank, age of the bank, low level of stress were considered less important by the managers.

This indicates that if banks want to perform well they should focus more on employees' satisfaction, profitability and goal achievement followed by customer satisfaction and good image in the mind of customers. However, other factors like external environment and stress level of the employee are also important and can't be neglected. Thus from the information available in the table and as proved through previous studies also, it can be

concluded that organizational effectiveness of the bank is not decided by a single factor. There are various predictors of effectiveness and none of the factors can be ignored, though few factors play a more important role in making banks effective as compared to other factors.

In order to reduce the number of variables identified and to find out the most important factors essential for organizational effectiveness the variables were subjected to principal component analysis was done. Measures of Sample Adequacy such as correlation matrix, Bartlett's test of sphericity and KMO value showed that data was fit for factor analysis. It was observed that the ration of number of respondents to number of variables was more than 5:1 which inferred that data was adequate for factor analysis as per the criteria of the analysis. Table 2 shows that there were 28 correlations in the matrix having value greater than 0.30, satisfying the requirement of factor analysis which says that there should be some correlation values greater than .30. In addition, Table 3 shows that the overall MSA (Measures of Sample Adequacy) for the set of variables included in the analysis was 0.796, which exceeds the minimum requirement of 0.50.

Table 4 represents the communalities value which represents the proportion of the variance in the original variables explained by the factor solution. The factor solution should explain at least half of each original variable's variance, so the communality value for each variable should be 0.50 or higher. Table 5 shows the factors with Eigen value >1 that were retained in initial extraction. Six factors were extracted satisfying the criteria. Six factors thus extracted accounted for 65.60 percent of variance in the data. The final extraction of factors was done by subjecting the factors to orthogonal rotation with varimax. All the factors loading more than .03(ignoring the sign) were retained. Variable having loading of more than .30 on more than two factors was discarded as per the procedure of the analysis. Table 6 shows rotated component matrix while Table 7 shows the final factors and variables retained after the complete process of principal component analysis. 12 variables falling under 4 factors were finally retained and considered as important factors and variables for organizational effectiveness. Thus through principal component analysis the factor that were retained and considered to be important determinants of effectiveness of the bank were clarity of goals, employees satisfaction, profit, customer satisfaction, latest technology, management style, collaboration of employees and management, size of the bank, external environment, low level of employee stress, motivation and sharing knowledge with other banks.

### **Suggestions**

- 1. In this competitive era every organization is focusing on achieving efficiency to provide better product and services at lower cost. Use of latest technology plays a significant role in organizational performance. Banks are no exceptions to this. Therefore to survive in tough competition and to outperform the competitors it is necessary that new and latest technology should be adopted.
- 2. It is an admitted fact that satisfied employees are productive employees. Now a days many organizations are using their employees as competitive advantage. If employees are satisfied they will perform for the upliftment of their organization. Hence we can suggest that importance should be given to the welfare and upliftment of the employees. Various monetary and non-monetary benefits can be offered by the banks to their employees to improve their satisfaction level with the banks.
- 3. The present study has proposed that external environment plays an important role in organizational effectiveness. Therefore, it is important to keep knowledge about the latest happenings and changes of the external environment. The organizations that are flexible to the changes in the external environment and adjust themselves according to these changes achieve success. Thus, it can be suggested that the banks should keep knowledge of the external environment to take strategic decisions related to various functions of the banks.
- 4. It is evident from the findings of the study that management style is one of the important factors that affect the performance and efficiency of the banks. Behaviour of the managers affects the satisfaction level of the employees which in turn affect performance of the employees and the banks. Therefore, leadership style of the management should be participative and employees friendly.
- 5. Motivation is the willingness of an individual to exert efforts for the achievement of specific goals. We have proved through our study that motivation of employees can lead to success of the banks. Motivation of the employees is very important and significant predictor of organizational effectiveness. So it is suggested that banks should adopt strategies and policies to keep employees motivated.
- 6. Every organization work in this business environment with some goals and objectives. It is evident from the present study that achievement of goals is critical for organizational success. Management and employees of the banks should focus on achievement of goals. However, employees can contribute in the achievement of goals only if they are aware of them. Therefore organizations should ensure that each employee and department should be kept informed about the goals and

### Conclusion

Organizational effectiveness refers to the achievement of goals, however it also involves various other dimensions .the study tried to identify important dimensions of organizational effectiveness. The study indicated that factors like clarity of goals, employee satisfaction, profit, customer satisfaction, latest technology, management style, collaboration of employees and management, size of the bank, external environment, low level of employee stress, motivation and sharing knowledge with other banks are critical for organizational success. Hence it can be suggested that organization should focus on theses aspect to maximize their effectiveness.

TABLE 1

Mean Score of the Variables as a Predictor of Organizational Effectiveness

S. NO.	Variable	Mean Score
1	Clarity of goals and proper mission statement (Q1)	4.29
2	Employee satisfaction (Q2)	4.39
3	Profit (Q3)	4.33
4	Public image and goodwill (Q4)	4.1
5	Customer satisfaction (Q5)	4.1
6	Behavior and management style (Q6)	3.97
7	New and latest technology(Q7)	3.99
8	Recruitment and selection (Q8)	4.09
9	Responsiveness and accountability(Q9)	4.11
10	Sufficient number of employees (Q10)	3.89
11	Internal communication (Q11)	4.06
12	Collaboration and coordination (Q12)	3.97
13	External environment (Q13)	3.75
14	Size of the a Bank (Q14)	3.47
15	Age of the bank( Q15)	3.6
	Sharing its skills , knowledge and techniques with other	
16	banks (Q16)	3.22
17	Low level of stress (Q17)	3.64
18	Motivation of employees (Q18)	4.25
19	Achievement of business goal (Q19)	3.8

# TABLE 2 (A)

# **Correlation Matrix**

	label	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19
	Q1	1.000																		
	Q2	.491	1.000																	
	Q3	.568	.550	1.000																
	Q4	.274	.406	.312	1.000															
	Q5	.425	.393	.477	.226	1.000														
	Q6	.217	.192	.203	.331	.274	1.000													
	Q7	.105	.291	.299	.302	.255	.331	1.000												
	Q8	.496	.275	.287	.262	.480	.208	.287	1.000											
	Q9	.190	.204	.154	.334	.196	.341	.253	.392	1.000										
ation	Q10	.322	.247	.245	.050	.219	.299	.309	.367	.099	1.000									
correlation	Q11	.268	.265	.188	.174	.291	.256	.272	.582	.423	.476	1.000								
	Q12	.077	.005	.093	.182	.041	.211	.236	.379	.542	.245	.491	1.000							
	Q13	.138	.064	.170	.198	.141	.223	.286	.225	.420	.201	.335	.448	1.000						
	Q14	.155	.150	.238	.471	.185	.355	.400	.226	.192	.215	.237	.345	.435	1.000					
	Q15	.238	.280	.175	.274	.138	.289	.268	.209	.319	.277	.201	.250	.261	.365	1.000				
	Q16	.126	.079	.124	.334	.048	.257	.212	.238	.450	.153	.246	.444	.485	.552	.378	1.000			
	Q17	.093	.172	.045	.110	.125	.093	.243	.062	.125	.179	.049	.153	.143	.175	.301	.136	1.000		
	Q18	.257	.143	.041	.119	.187	.317	.142	.184	.204	.204	.191	.204	.224	.061	.142	.138	.304	1.000	
	Q19	.238	.247	.187	.117	.190	.147	.194	.224	.220	.287	.151	.142	.220	.150	.334	.302	.272	.222	1.000

TABLE 2 (B)
Anti-Image Correlation Matrix

	label	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10	Q11	Q12	Q13	Q14	Q15	Q16	Q17	Q18	Q19
Anı	Q1	.755ª	178	410	026	.025	026	.272	383	010	122	.075	.130	032	020	085	.019	.002	216	010
Anti-image	Q2	178	.803ª	298	278	078	.080	117	.110	070	026	200	.157	.104	.083	130	.046	083	025	087
lage	Q3	410	298	.749ª	038	294	.004	182	.154	.044	046	.086	143	068	021	.072	013	.103	.187	019
Cor	Q4	026	278	038	.820ª	.057	120	043	095	169	.161	.058	.046	.079	331	002	052	.012	036	.057
Correlation	Q5	.025	078	294	.057	.799ª	145	.015	349	047	.073	049	.196	042	089	.044	.120	094	082	041
ion	Q6	026	.080	.004	120	145	.800a	124	.133	233	201	014	.061	.085	179	090	.018	.133	259	.043
	Q7	.272	117	182	043	.015	124	.827ª	165	066	137	.023	.030	091	197	021	.109	142	023	020
	Q8	383	.110	.154	095	349	.133	165	.779ª	098	069	329	166	.112	.018	.021	042	.087	.048	061
	Q9	010	070	.044	169	047	233	066	098	.765°	.240	142	334	190	.335	122	236	020	.057	041
	Q10	122	026	046	.161	.073	201	137	069	.240	.790°	334	060	010	.003	109	.005	076	005	156
	Q11	.075	200	.086	.058	049	014	.023	329	142	334	.817ª	233	112	033	.050	.047	.107	016	.085
	Q12	.130	.157	143	.046	.196	.061	.030	166	334	060	233	.807ª	104	150	016	086	094	118	.057
	Q13	032	.104	068	.079	042	.085	091	.112	190	010	112	104	.872ª	217	.004	171	.022	139	053
	Q14	020	.083	021	331	089	179	197	.018	.335	.003	033	150	217	.738ª	131	382	076	.162	.081
	Q15	085	130	.072	002	.044	090	021	.021	122	109	.050	016	.004	131	.894ª	108	175	.077	144
	Q16	.019	.046	013	052	.120	.018	.109	042	236	.005	.047	086	171	382	108	.830a	.045	023	202
	Q17	.002	083	.103	.012	094	.133	142	.087	020	076	.107	094	.022	076	175	.045	.716ª	245	131
	Q18	216	025	.187	036	082	259	023	.048	.057	005	016	118	139	.162	.077	023	245	.699ª	084
	Q19	010	087	019	.057	041	.043	020	061	041	156	.085	.057	053	.081	144	202	131	084	.854ª

TABLE (3)
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of San	.796	
Bartlett's Test of Sphericity	Approx. Chi-Square	984.126
	df	171
	Sig.	.000

TABLE 4
Communalities

	Initial	Extraction
Q1	1.000	.682
Q2	1.000	.642
Q3	1.000	.672
Q4	1.000	.671
Q5	1.000	.549
Q6	1.000	.634
Q7	1.000	.609
Q8	1.000	.684
Q9	1.000	.692
Q10	1.000	.751
Q11	1.000	.738
Q12	1.000	.684
Q13	1.000	.505
Q14	1.000	.730
Q15	1.000	.529
Q16	1.000	.702
Q17	1.000	.592
Q18	1.000	.775
Q19	1.000	.624

TABLE 5
Total Variance Explained

		Initial Eiger	ı values	Ext	raction Sums Loadin	-	Rotation Sums of Squared Loadings			
	% of		% of				% of			
Component	Total	Variance	Cumulative %	Total	Variance	Cumulative %	Total	Variance	Cumulative %	
1	5.543	29.171	29.171	5.543	29.171	29.171	2.944	15.492	15.492	
2	2.093	11.015	40.186	2.093	11.015	40.186	2.891	15.214	30.706	
3	1.447	7.617	47.803	1.447	7.617	47.803	1.989	10.469	41.176	
4	1.357	7.141	54.945	1.357	7.141	54.945	1.691	8.898	50.073	
5	1.020	5.369	60.314	1.020	5.369	60.314	1.660	8.737	58.810	
6	1.004	5.286	65.600	1.004	5.286	65.600	1.290	6.789	65.600	
7	.835	4.395	69.995							
8	.800	4.211	74.206							
9	.710	3.735	77.940							
10	.678	3.567	81.508							
11	.615	3.237	84.745							
12	.507	2.671	87.416							
13	.492	2.588	90.004							
14	.418	2.202	92.206							
15	.397	2.087	94.293							
16	.343	1.808	96.101							
17	.279	1.470	97.571							
18	.249	1.309	98.880							
19	.213	1.120	100.000							

TABLE 6
Rotated Component Matrix<sup>A</sup>

		Component										
	1	2	3	4	5	6						
Q1	.783	.117	077	.150	.131	.103						
Q2	.750	033	.171	.219	.011	.039						
Q3	.771	.018	.222	.076	.068	135						
Q4	.443	.309	.524	010	312	.084						
Q5	.663	.025	.126	037	.215	.214						
Q6	.174	.179	.552	051	.111	.502						
Q7	.151	.063	.666	.143	.329	.100						
Q8	.504	.435	029	056	.480	.086						
Q9	.204	.766	.041	.030	015	.245						
Q10	.175	.022	.205	.284	.771	.051						
Q11	.244	.492	.056	089	.645	.096						
Q12	072	.756	.102	.046	.294	.092						
Q13	001	.623	.253	.192	.120	.038						
Q14	.089	.372	.731	.169	.028	143						
Q15	.168	.283	.295	.577	.036	018						
Q16	.014	.698	.306	.314	095	112						
Q17	023	032	.151	.656	.044	.366						
Q18	.095	.150	024	.227	.067	.829						
Q19	.225	.190	083	.718	.119	.023						

TABLE 7
Rotated Component Matrix<sup>A</sup>

Factor	Construct			Comp	onent	
		Label	1	2	3	4
	Clarity of goals and proper	Q1	.800	.156	121	.097
F1	mission statement					
	Employee satisfaction	Q2	.762	024	.167	.117
	Profit	Q3	.821	.077	.211	140
	Customer satisfaction	Q5	.697	.040	.124	.130
F2	New and latest technology	Q16	.011	.727	.336	046
	Behavior and style of management	Q9	.202	.766	074	.131
	Collaboration and coordination of	Q12	028	.787	.086	.125
	employee and Mgt.					
	Size of the a Bank	Q13	.069	.697	.275	.082
F3	External environment	Q14	.113	.421	.722	082
	Sharing Its skills , knowledge and	Q7	.236	.137	.712	.195
	techniques with other bank					
F4	Low level of stress	Q17	.017	007	.378	.769
	Motivation of employees	Q18	.172	.259	172	.770

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