

ENHANCING BANKING PERFORMANCE THROUGH OPERATIONAL PROACTIVENESS

Munsung Rhee, Department of Business Administration, UIDUK University, Kyungju Shi, Kyungsang Bukdo, 780-713, South Korea, +82 (54) 760-1114, munsung@viro.uiduk.ac.kr
Satish Mehra, The Fogelman College of Business and Economics, The University of Memphis, 432 Fogelman College Admin. Bldg., Memphis, TN 38152, 901-678-2476, smehra@memphis.edu
Aaron Joyal, The Fogelman College of Business and Economics, The University of Memphis, 432 Fogelman College Admin. Bldg., Memphis, TN 38152, 901-678-4197, adjoyal@memphis.edu

ABSTRACT

The aim of this paper is to explore the role of operational proactiveness with respect to achieving strategic alignment and enhancing business performance. In order to fulfill our research purpose, we investigated how operational performance impacts strategic alignment and business performance. Our results show that operational proactiveness takes important roles in attaining high quality strategic alignment and enhancing business performance and that it contributes to business performance through enhanced strategic alignment. As this study provides evidence that operational proactiveness impacts strategic alignment and business performance, service firms must spend time and effort developing their operations functions to a high competency level so that it takes a proactive role in strategic decision processes within the organization.

Keywords: Proactiveness, Strategic Alignment, Business Performance

INTRODUCTION

The relative position of each functional area in business organization is decided by the strength of demand and supply. Initially, in the era of demand surpassing supply, the operations function occupied a crucial role in strategic decision processes. When the consumer and market orientated period emerged in the 1960s, the marketing function began to take a leading role in strategic management. By the 1970s, when recessions and oil crises occurred, the finance department was considered to be the most important function. In this respect, during the supply-surplus periods, the operations function tended to take reactive stance in the strategic decision making process at top management levels [6].

This reactive stance of the operations function might have brought industrial decline. Many American manufacturing firms whose operations functions took reactive postures lost their competency against foreign competitors, particularly Japanese firms [15]. When the operations function takes a reactive stance in organizational strategic decision making, this function cannot help but deal with various conflicting demands imposed on it from other functional areas. Furthermore, it cannot gain appropriate and useful resources to build its necessary capabilities. Under these circumstances, it will hardly get a chance to properly demonstrate its capabilities and requirements in the firm's strategic decision making. When the operations function is excluded from the strategic decision processes, operational activities are unlikely to be aligned closely with competitive strategy. In this vein, Wheelwright and Hayes [16] emphasize that operations needs to proactively participate in and steer the firm's strategic decision process in order to resolve strategic misalignment problems and achieve world-class competitiveness, a concept which they define as operational proactiveness. The operations function, when it takes a

proactive stance and a leading role in strategic decision processes, is expected to contribute effectively towards achieving a world-class status through fostering its strategic alignment with competitive strategy.

The proactiveness concept has been utilized by taking different roles to explore performance implications of various research topics such as ‘entrepreneurial orientation’ [7] [10], ‘environmental strategy’ [1] [12], ‘market orientation’ [8] [14], ‘new product development strategy’ [5] [11], and ‘manufacturing flexibility’ [2] [9]. However, the performance implications of the proactiveness have rarely been empirically investigated within context of operations function. Thus, the purpose of this research is to examine the role of operational proactiveness.

RESEARCH METHODOLOGY

From a list of top U.S. banks, slightly more than 500 banks whose retail banking manager’s name and title were available were selected as a sampling frame. After constructing and pilot testing the questionnaires, a mail survey was implemented following the total design method (TDM) mail survey process [3]. Research packages were prepared and sent to each key informant. We received responses from over 80 retail banks yielding a response rate of approximately 16%. In an effort to check whether a response-bias was present, we used a chi-square goodness-of-fit test. The test statistic failed to reject the null hypothesis of equal distribution at 0.10 which confirmed the absence of a non-response bias.

A major goal of this study is to investigate how operational proactiveness affects a retail bank’s strategic management and business performance. This research goal is achieved by exploring how proactiveness impacts strategic alignment and its association with business performance.

We assumed that operational proactiveness would enhance the quality of the strategic alignment between competitive strategy and strategic activities of operations and marketing. In an effort to test this hypothesis, we used the discriminant analysis method. The hit ratio, a statistic from the results of this discriminant analysis, is implemented to assess how exactly the anticipated groups are matched with the actual groups. On the basis of the hit ratio, we can determine if the degree of congruence between the predicted strategic group – which is derived indirectly on the basis of operations and marketing activities – and the actual strategic group – which is chosen directly by bank management (respondents) – is different between the high and the low operational proactiveness groups. In this respect, this discriminant analysis can examine whether the operational proactiveness enhances, as assumed, the quality of the strategic alignment or not.

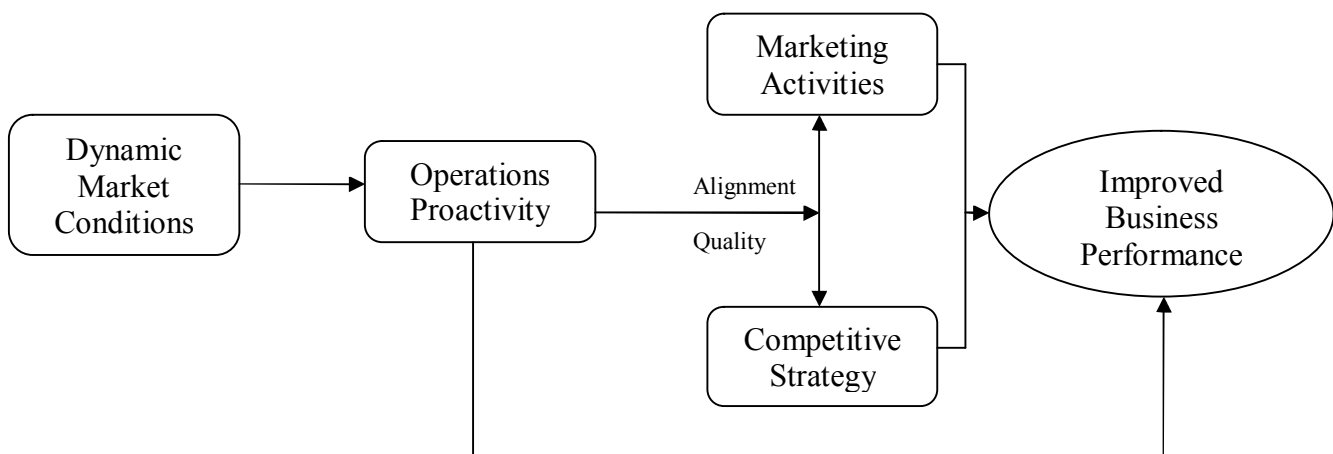
RESEARCH FINDINGS

Our analysis results can be summarized as follows: operational proactiveness positively impacts the achievement of the strategic alignment between competitive strategy and strategic activities of operations and marketing, and as previous research has shown, this alignment leads to improved business performance. In addition, we find that operational proactiveness moderates the relationship between strategic alignment and business performance. However, its impact upon the relationship between the two functions and business performance is shown to be insignificant. In this respect, our research indicates that the operational proactiveness may indirectly contribute to improved business performance through better quality strategic alignment between competitive strategy, and operations and marketing activities.

PROPOSED MODELS FOR ENHANCING BUSINESS PERFORMANCE

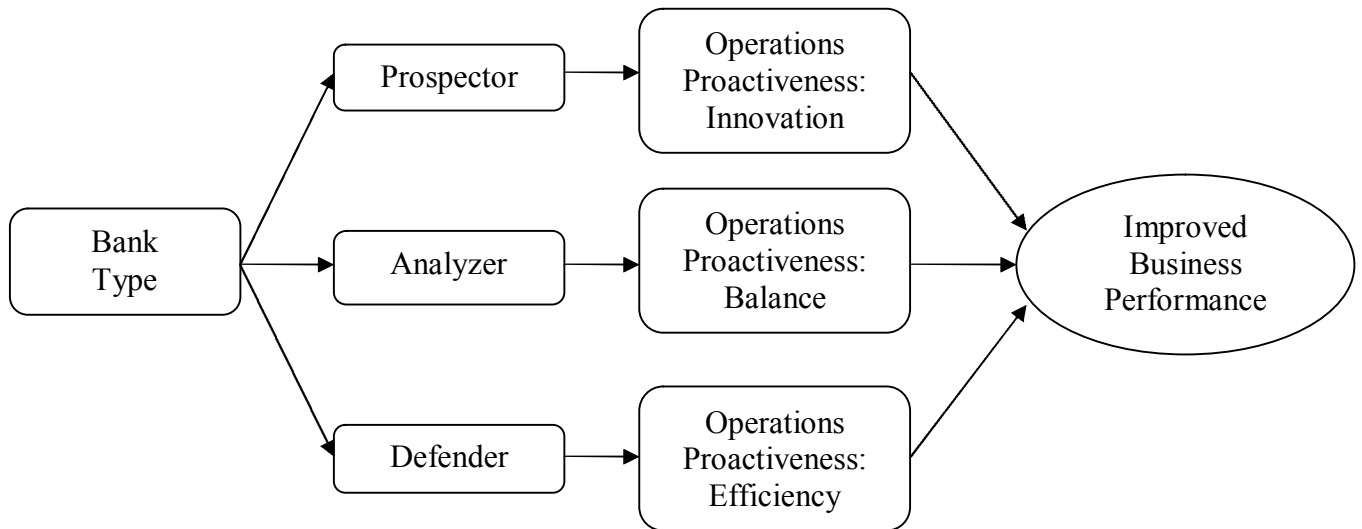
First, in order to investigate whether operational proactiveness contributes to improved business performance through a better quality strategic alignment between the competitive strategy and marketing areas of a bank, we propose a model to demonstrate the relationship between operational proactiveness and business performance (see fig. 1). In this model, we postulate that it is the existence of dynamic market conditions – operationalized as complex market changes over a period of time [4] – that makes operational proactiveness a necessity for banks that intend to improve their level of business performance. These ever-changing market conditions demand a dynamic response, and banks implement operational proactiveness in order to generate solutions to the problems they encounter. Once implemented, the bank’s operations proactiveness will positively moderate the quality of the strategic alignment between the competitive strategy and marketing areas of the firm. Finally, the improvements in the alignment between those two functional areas will have a positive effect on the bank’s business performance. In addition to this indirect effect, we also postulate that the implementation of operations proactiveness will have a direct positive effect on the bank’s business performance. As such, this first model is proposed to verify the research findings that we have previously discussed.

Figure 1. Operations Proactivity and Business Performance



Second, we attempt to extend our research findings by proposing a second model to investigate the impact of the bank’s strategic group on the specific purpose that their implementation of operational proactiveness is intended to have (see fig. 2). Prior research has demonstrated that – with respect to their purposes for introducing operational proactiveness – there are three different bank types. The first type, prospectors, attain their competitive advantage in the marketplace through the continuous introduction of innovation into both the market and their products [13]. Thus, we propose that when prospectors introduce operational proactiveness, they do so with the intent of improving their ability to aggressively innovate. The second type, defenders, attempt to maintain their competitive advantage by enhancing the efficiency with which their services are produced and improving their level of service quality. Thus, we propose that when defenders introduce operational proactiveness, they do so with the intent of improving their ability to generate products efficiently and at a high level of quality. Finally, the third type of bank, analyzers, intend to maintain a balance between their level of innovation and efficiency in order to obtain a competitive advantage in the marketplace. Thus, we propose that when analyzers introduce operations proactiveness, they do so with the intent of maintaining a balance between their levels of innovation and efficiency. In all of the three cases, the alignment between bank type and the intended effect of obtaining operational proactiveness is postulated to have a positive effect on the bank’s business performance. It is hoped that future research will verify the validity of these two proposed models.

Figure 2. Banking Strategies and their Impact on Business Performance



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