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RESEARCH ARTICLE

ORGANIZATION STRUCTURE AND PERFORMANCE OF NIGERIAN BANKS

*[1]Onodugo, V. A., [1]Ugbam O. C., [2]Imo G. Ibe and [3]Ogosi Chinedu

[1]Department of Management University of Nigeria, Enugu Campus, Enugu, Nigeria
[2]Department of Banking and Finance, Renaissance University, Ugbawka, Enugu, Nigeria
[3]FCMB Nigeria PLC Asaba Area Office, Asaba, Nigeria

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ABSTRACT

The Nigerian banking sector has had a checkered transition and evolutionary trajectory. The sector has turned full cycle with several booms and bursts, distresses and regroupings experienced. Consequently, not a few studies have been undertaken to provide explanation to this phenomenon and to provide solutions. This study joins the plethora of other investigations seeking to explain factors that impact on the performance of Nigerian banks. Specifically, it investigated how organizational structure influenced the performance of Nigerian banks. The descriptive survey method of research was used for this study and responses were gathered from five hundred and forty-three respondents (543) comprising managerial and non-managerial staff of Commercial banks in South East Nigeria. Results revealed that structure has significant positive effect on the enhancement of performance of Commercial Banks in South East Nigeria. We thus recommend greater specialization among banks in Nigeria. This will further boost performance and subsequently enhances the growth of the Nigerian economy.

1.0 INTRODUCTION

The Nigerian banking sector has witnessed remarkable transformations in the last two decades. The fragility of the sector in the 1990s and early 2000, with most banks poorly capitalized, manifested in the inability of most banks to support capital intensive developmental projects. Most of them were vulnerable to distress with any slightest loan default. This led Central Bank of Nigeria (CBN) to embark on the policy regime to shore up the capital base of Nigerian banks in what is generally regarded as Bank Consolidation in 2004. This move pruned down the banks through mergers and acquisitions and in some cases, outright liquidation from 89 to 25(Oladepo, 2010). The breath of fresh air in the sector as a result of Consolidation was short-lived. The global economic crisis of 2007-2009 which led to the withdrawal of foreign capital from the economy that supported the consolidation programme and worse still, most of the loans that were used to finance capital market transactions turned bad. All these pressures made most of the banks and the regulatory agencies to devise coping strategies with varying degrees of stress to the economy. With fall in profitability and returns, banks resorted to massive downsizing of personnel, constrained loans and advances, shrunk employee welfare and embargo on employment of new staff (Somoye, 2006a), Expectedly, the above precipitate factors have drawn the attention of scholars to embark on studies to provide explanation as to why things are the way they are with the Nigerian banks. For instance, Aburime (2008) and Ogigio (1991) at different time intervals investigated the extent to which ownership structure impacted on the performance of banks in Nigeria. Akinola (2012) assessed how globalisation has affected the profitability of banks. Nwaz and Munir (2012) looked at how credit risks affect bank profitability in Nigeria. The growing number of studies providing explanations on the various aspects of bank performance in Nigeria notwithstanding, there is paucity of studies on how organisational structure impacts on the performance of Nigerian banks. Interestingly, the subject of relationship between organisational structure and performance of organisations has been a subject of interest to scholars in the literature for quite some time (Cyert and March, 1963; Ford and Slocum, 1977; Dalton, *et al*., 1980; MacKenzie, 1978; Hall, Nahm, *et al*., 2003). Organisational structure is strongly believed to affect the behaviour of organisational incumbents and by extension influence performance (Dalton, *et al*., 1980). Specifically, organisational structure tries to limit individual influences on the organisation and determines how responsibilities and power are allocated and provide platform for decision making (Hall, 1977).

Organizational design is the choice of appropriate structure for the organisation. Some corporate managers often do not critically align the structure of the firm with its nature and scope. This non-alignment makes the mechanism for corporate effort and desired organisational performance difficult to be actualized. In a state where no one is given order in that chain of command creates a situation of ineffective leadership, conflict role overlap (Dalton *et al*., 1980). Employees' morale is thus affected in such an organisation leading to high labour turnover which is unhealthy for the growth of the firm. Labour turnover is often seen as the flow of manpower into and out of an organization, in which the inflow is referred to as accession and the outflow as separation hence seen as one of the unorganized forms of industrial conflict in which employees usually retreat from unsatisfactory situations. Previous studies have provided many important insights on what is the relationship between structure and performance. Specific works on Nigeria explored mostly how independent variables such as globalization, credit risks and ownership structure affects performance. There is gap on the place of organizational structure on banks performance in Nigeria. It is this gap that this study seeks to fill. This paper is divided into five sections: Next to this introduction is the review of the related literature. Section

***Corresponding author: Onodugo, V. A.,** *Department of Management University of Nigeria, Enugu Campus, Enugu, Nigeria.**

three deals with methodology, while section four, discusses the result of findings. The final section concludes the study and proffers some recommendations.

2.0 Review of Related Literature

The subject of organization theory and design is dynamic as it is revealing. The perspectives of its study vary with changing environmental variables. This is so much so that there is a prevailing view among experts that organization design which studies the linkages among environment, organizational structure and organizational outcomes, despite its long history, is in more respects than one, an emerging field (Csaszar, 2008; Foss, 2003; Zenger and Hesterly, 1997). One of the most useful organizational theories that seem to offer useful insights on the understanding of organizational structure and performance is the Contingency Theory (Woodward, 1965; Lawrence and Lorsch, 1967). This theory generally seeks to highlight the applicability aspects of theories to the uniqueness of a particular environment (Onodugo, 2000; Apkala, 1990). In particular to organizational theory, it seeks to examine how organizational structure can best be aligned or associated to certain contextual environmental factors in such a way as to achieve the goals of the organizational in a dynamic environment (Thompson, 1967; Csaszar, 2008). Within the framework of this Theory, environment is broadly classified into two namely: industrial and post-industrial or turbulent and benevolent. Industrial environmental era is characterized by markets segments that are large and stable. Product life-cycles are long, and production costs are moderate and economies of scale are the hallmarks of most leading organizations. The environmental variables are relatively stable and friendly (Skinner, 1985). In the Post-industrial era, firms compete in heterogeneous global market, with customer request for specific product applications grow, manufacturing and information technology expand and global competition increases. Innovations and hyper competition shortens product life cycle (Csaszar, 2008).

Experts propose two types of organization structure that fits into these two broad environmental scenarios. The fitting organizational designs to these environments are labeled mechanistic (inorganic) and organic for industrial and post-industrial respectively (Draft, 1995; Lawrence and Lorsch, 1967). Mechanistic organizational design is akin to the rational-legal design popularly known as *Bureaucracy* that was propounded by the German Sociologist Max Weber. This design is suitable in an environment where there is high degree of certainty and predictability. Consumer expectations and demands are modest and technological changes tend to be mild and repetitive. The organizations are usually large and use rational analysis and are guided by parochial values reflected in the vertical hierarchy and superordinate power distinctions (Nahm, *et al*., 2003). The organic design is better in an environment where there are rapid changes in the environment. The organizational structure is more horizontal and flatter. Technological innovations are less repetitive and size of the organization less critical to its survival. Interactions among organization incumbents are more informal and based on face-to-face contacts. Learning and innovation drive organizational growth. In all the critical distinguishing elements between the two types of designs are: Degree of formalization, the nature of hierarchy, the locus of decision making and in some cases size of the organization. Mechanistic design is more formalized, usually larger, more bureaucratic, vertically hierarchical and the decision is top-down; while organic design are flatter, more informal, horizontal interaction tendencies and more flexible. The former is generally more suitable for stable environment, while the latter suits an environment that is in a state of flux. These two organizational typologies and designs described above have situational context in the Nigerian banking history. The pre-1990 banking era that was dominated by the four big banks- First Bank Plc, United Bank for Africa PlC, Union Bank Plc and Afribank PlC now Enterprise Bank PLC. During this era, customer demands were less aggressive, technological and service innovations were mild and fairly simple. Competition was manageable, and the elements of the environment more stable and predictable. Consequently, banks atrophy and distresses were less frequent and the entire banking sector more predictable and stable. The next era is post 1991 till the time of Bank Consolidation of 2004. During this era, the sector was filled with as many as 89 banks increasing the incidence of competition. The dominance of the big four banks were challenged by new entrants which modernized service and adjusted to the increased service demands of the customers. Technological innovation was more frequent and long held routines and values were challenged and disrupted. During this phase, bank distress and atrophy was more frequent and the sector and system less stable and more unpredictable. It is a matter of research investigation to ascertain whether banks structured their organisations to fit into the organic design proposed for the sector and where that is the case, whether or not it led to the expected performance outcomes. Another characteristic of organizations that have been thoroughly investigated in the literature is the relationship between the size of organization and performance. Study findings had mixed results. Early investigations that studied relationship between subunit size and performance (Indik and Seashore, 1961; Katzel, *et al.*, 1961; Hrebiniak and Alluto, 1973), reported an inverse relationship between subunit size and performance. At the entire organizational level, aside few studies (Herbst, 1957; and Revans, 1958) whose findings suggest that medium sized organizations perform better than large and small firms, the bulk of the literature reported no association between size of organization and performance (Dalton, *et al*., 1980; Corwin, 1970; Bidwell and kasarda, 1975).

However, one of the most important issues to researchers that concern structure and performance is analyzed by the group decision-making literature, the issue of whether groups take more or less risks than its members, remains an open question (Connolly and Ordonez, 2003). Although previous literatures have provided many important insights on what is the impact of structure on performance, the field of organizations lacks an empirically validated theory that starting from structure at the level of individuals is able to predict organization-level measures of performance relevant to the organization. Generally, the previously reviewed literatures do not provide such a theory because of at least one of the three following reasons: not describing structure at the individual level of analysis, not predicting measures of performance useful to strategy research, or not having empirical support.The above is the gap that this research intends to fill; therefore, this paper will focus on the effect of organization structure on performance of the organization from the perspective of describing the structure at the individual level of analysis, predicting measures of performance useful to strategy research, and having empirical support among banks in Nigeria.

3.0 METHODOLOGY

The descriptive survey method of research was used for this study. Two methods of collecting data were used in generating data for this research: primary and secondary data. For the purpose of this paper, we used questionnaire as the instrument for collection of primary data. The questionnaire was designed in a structured form because the structured questions provide respondents with possible answers from where they are required to select those that apply (Monga, 2005). The population of this study comprises of all the bank staff in the South East of Nigeria. The population consists of managerial and non managerial staff of these banks. The banks were:- Access Bank, Diamond Bank, EcoBank, Fidelity Bank, First Bank, First City Monument Bank, Guaranty Trust Bank, Skye Bank, Stanbic IBTC, Sterling Bank, U.B.A, Union Bank, Unity Bank, Wema Bank and Zenith Bank Nigeria PLCs. The accuracy of statistical inference based on sample depends on the adequacy of samples and sampling method. It is against this background that we adopted the Taro Yamane formula to determine the sample size of commercial banks' staff in South East Nigeria. Our sample size comprised of five hundred and forty-three respondents (543). Our study's main constructs was to examine the effect of structure on the performance of commercial banks in South

East Nigeria. This was measured through the use of Likert- scale questionnaire. For presentation and data analysis, tables and percentages were used to summarize the data gathered while the Chi-square statistics was used to test our hypothesis. The Chi-square statistics was used to ascertain the effect of structure on performance of commercial banks in South East Nigeria.

4.0 Data Presentation and Analysis

4.1 Presentation of Data

From the copies of questionnaire distributed to managerial and non managerial staff of commercial banks in South East Nigeria, two hundred and eleven (211) copies of questionnaire were correctly filled and returned by managerial staff of the selected commercial banks in the state while two hundred and six (206) copies of questionnaire were correctly filled and returned by non-managerial staff of the commercial banks in South East Nigeria. Table 4.1 presents the response rate from the copies of questionnaire distributed.

Table 4.1. Response Rate of Commercial Bank Staff in South East Nigeria

Staff	No of Questionnaire Distributed	No of Questionnaire Returned	Percentage Response
Managerial Staff	255	211	51
Non-managerial	288	206	49
Total	543	417	100

Source: Field Survey, 2013

From the Table 4.1, it shows that from the five hundred and forty-three (543) copies of questionnaire distributed to the fifteen (15) commercial banks in South East Nigeria, four hundred and seventeen (417) copies of questionnaire were returned. Two hundred and eleven (211) copies of questionnaire were returned by managerial staff of Bank in South East Nigeria which represents fifty-one percent (51%) response rate and two hundred and six (206) copies of questionnaire was returned by customers. This represented forty-nine percent (49%) percent response rate. Table 4.2 presents the responses from respondents on the impact of structure on performance of Nigerian Banks in the South East.

Table 4.2. Structure and Performance of Nigerian Banks

Extent	Managerial Staff	Non-managerial Staff	Total	(%)
Very High	111	95	206	49
High	55	83	138	33
Very low	6	1	7	2
Low	10	5	15	4
Moderate	29	22	51	12
Total	211	206	417	100

Source: Field Survey, 2013

From Table 4.2, it was revealed that one hundred and eleven (111) and ninety-five (95) respondents from the managerial and non managerial staff group say that the design of their bank's structure enhances performance at a very high extent. This represented a total of two hundred and six (206) respondents which translated to forty-nine (49) percent of respondents. Fifty-five (55) managerial staff and eighty-three (83) non-managerial staff respondents say that the design of their bank's structure enhances performance at a high extent. This represented a total of one hundred and thirty-eight (138) respondent and thirty-three (33) percent of respondents. Six (6) managerial and one (1) non-managerial staff say that the design of their bank's structure enhances performance at a very low extent. This represented a total of seven (7) respondents and two (2) percent of respondents sampled. Ten (10) managerial and five (5) non-managerial staff of commercial banks in South East Nigeria say that the design of their bank's structure enhances performance at a low extent. This represented a total of fifteen (15) respondents and four (4) percent of the total sample. Lastly, twenty-nine (29) managerial and twenty-two (22) non-managerial staff say that the design of their bank's structure enhances performance at a moderate extent and this represented a total of fifty-one (51) respondents and twelve (12) percent of the total respondents.

4.2 Test of Hypothesis

Three steps were employed in the test of hypothesis used in this study: Step one involved restatement of the hypotheses in null and alternate forms. Step two was presentation of table for analysis and analysis of SPSS results and in step three, decisions were made.

Step One: Restatement of Hypothesis in Null and Alternate forms

Ha: Structure has significant positive effect on performance of Commercial Banks in South East Nigeria
Ho_2Structure has significant negative effect on performance of Commercial Banks in South East Nigeria

Step Two: Presentation of Table and Analysis of SPSS Results

From Table 4.3, the result reveals that from the perception of managerial staff of banks in Enugu State, structure have significant positive effect on the enhancement of performance of Commercial Banks in Nigeria ($X_c^2 = 175.80 > X_t^2 = 9.48$ at 4 degree of freedom and 0.05 level of significance). Also the perception of non-managerial staff of commercial banks in Enugu state, it was revealed that structure have significant positive effect on the enhancement of performance of Commercial Banks in Nigeria ($X_c^2 = 192.64 < X_t^2 = 9.48$ at 4 degree of freedom and 0.05 level of significance). This was further supported by p = 0.00 < 0.05.

Table 4.3. SPSS Chi-Square Result

			Structure have significant positive effect on performance of Commercial Banks in South East Nigeria	Structure have significant positive effect on performance of Commercial Banks in South East Nigeria
Chi-Square(a,b)			175.801	192.641
Df			4	4
Asymp. Sig.			.000	.000
Monte Carlo Sig.	Sig.		.000(c)	.000(c)
	95% Confidence Interval	Lower Bound	.000	.000
		Upper Bound	.000	.000

Source: SPSS Results

Step Three: Decision

The alternate hypothesis is accepted from both the perception of managerial and non-managerial staff of commercial banks in Enugu state that structure has significant positive effect on the enhancement of performance of Commercial Banks in South East Nigeria.

5.0 Conclusion and Recommendation

It is a truism that the environment and the organization exist in symbiotic relationship. The actual operations of any organisation in meeting its objectives often depend on the behaviour of people who work in it, while on the other hand, the organizations' structure, in several ways shape and impact on the behavior of organizational participants. Therefore when the human elements are not organized in layers in terms of the structure, the organisation will live in a state of anarchy, thus affecting efficiency. This will eventually lead to low productivity with its adverse effects on profitability. An important issue in organizational structuring is whether the structure of an organization should be dynamic and change according to changes in the environment or remain stable in the face of such changes. Since an organization exists in an external environment, it cannot remain indifferent to changes in its external milieu. However, the extent of changes would depend upon the degree of influence the changing environment exerts on the efficient functioning of the organization and sub-units. Organizations can have simple to complex structures, depending upon organizational strategies, strategic decisions within the organization and environmental complexities. The structure of the organization can be traditional (bureaucratic) or modern (organic), according to needs. The traditional organizational structure is mechanistic and characterized by high complexity, high formalization and centralization. The classical organization structure designs are simple, centralized, bureaucratic and divisionalized. Modern organizational designs include project organization, matrix design and adhocracy design. The success in financial intermediaries business is often dependent on ability of organisations in the industry to reduce the cost of input, have control over new entry and the establishment of controlled prices/interest rates at levels that ensured a comfortable franchise value. Limitation of competition and oligopoly hindered competition, efficiency and innovation. The greater competition placed downward pressure on profitability, capital ratios and franchise values. Financial instability and failures became more prevalent. However, a good structure assist these financial intermediaries eliminate wastages thus reducing input cost and enhancing efficiency. Therefore, the findings of this study that structure has a role on the performance further buttresses the importance of structure in the enhancement of overall performance of banks in Nigeria. We therefore recommend that specialization which facilitates division of work into units for efficient performance should be pursued in the banking industry. This will assist in boosting performance of these banks not only in the South East but in Nigeria in general.

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