

Organizational Growth and Performance: Special reference to Commercial Bank of Ceylon Ltd in Sri Lanka

K. Priya^{1†} and S. Thusha²

¹Department of Accounting, University of Jaffna, Sri Lanka

²Department of Financial Management, University of Jaffna, Sri Lanka

[†]priyakogulan@gmail.com

Abstract: This study was undertaken with the objective of find out the relationship between Organizational Growth and Performance: The special reference to Commercial Bank of Ceylon Ltd (CBC) in Sri Lanka. Using a multiple regression analysis was examined for the period of 1996-2010 (15 Years). In this study, dependent variable that is, net profit, operating profit, return on investment, return on equity, return on average asset, return on average shareholder (independent variables) are measured by number of employees, number of advances, number of depositors and gross income. Secondary data were collected for this study. Data were gathered from books, Journals and Annual reports etc. The present study is confined only to the Commercial bank of Ceylon Ltd as a whole. Now a day's Commercial bank is the largest and the most admired private bank which is contributed to the development of economy of Sri Lanka.

Keywords: Banking, Measurable linkages, Organizational growth.

I. INTRODUCTION

The banking organizations, today, is moving towards the goal of integrated financial services because of the strong competition and quick changes of technology. In developing countries like Sri Lanka, banking organizations provide fund for other organizational developments. Financial system of a country is broadly the mechanism in the financial market which deals with the business or transactions in money. The financial sector in every country has become the deciding factor of the economy. The implementation and achievement of the government policies, let it be developing or developed depends on the financial market. There should be a steady financial policy of the government, furthermore, financial stability be maintained by the state. Today banking sector plays a significant role in the economic development of the country.

Nowadays, world is becoming a globalization. Thus, in banking activities is very important aspect to carry out their activities effectively. Further, due to the increasing market competition and information technology in banking activities, this is very important in the comparison of organizational growth impact on performance in banking sector.

Present time banks are facing steep competing, technological changes and innovations. The international financial landscape is changing rapidly. Economies and financial systems are undergoing traumatic changes. Bank is very old institution that is contributing toward the development of any economy and it's treated as an important service industry in modern world. Nowadays the function of bank is not limited to within the same geographical limit of any country. It is an important source of financing for most businesses.

II. BACKGROUND

Financial performance analysis is the process of identifying the financial strengths and weaknesses of the firm. Management should be particularly interested in improving financial strengths of the firm to make their best. By doing financial analysis a firm able to spot out financial weakness and thereby take suitable corrective actions. The future plans of the firm should be laid down in view to the firm's financial performance analysis is the most compatible with shareholder's wealth minimization. Recently the financial market has become more competitive. In order to compete with non-bank, financial institution, and banks should be increasing their level of performance. The size of bank has also become an important issue. Because of the deregulation in the banking industry, there is a trend for banks to merge with others and become large in size. The trends leave survival questions that must be answered.

Performance measurement system plays an important role in evaluating the achievement of firm's goals. In Sri Lanka, many government banks are operating. Bank still play certain important role in the financial market, therefore it is important to evaluate whether the banks are operating efficiently or not. The main objective of the study is to find out the impact of organizational growth and performance of Commercial Bank of Ceylon Ltd and specific objectives are:

1. To identify the Performance of Commercial bank of Ceylon Ltd over the last 15 years during 1996–2010.
2. To recognizes the organizational growth.
3. To find out the relationship between performance and organizational growth.
4. To suggest the bank to keep concrete performance.

III. LITERATURE REVIEW

Theoretical and empirical literature on the determinants of growth and profitability are discussed in this section. Generally the profitability of the organizations depends upon its growth. In a way, Trau [5], Sutton [7] and Hart [1] have reviewed the theoretical and empirical literature on firm growth. In the early empirical literature, a number of manufacturing studies find either no relationship or a positive relationship between firm sizes and growth rates. More other studies consistently find inverse size-growth relationship. MacMillan and Day [4] considered that rapid growth could lead to higher profitability based on evidence that new firms become more profitable when they enter markets quickly and on a large scale. On the other hand, Hoy [2] concluded that the pursuit of high growth may be minimally or even negatively correlated with firm profitability.

Scholtens Bert [6] found a weak association between profitability and bank concentration. In this research evident that there is a substantial variation in the ability of branch offices to perform the task and substantial agreement on the identity of the branches at the bottom of the performance distribution. Profitability can be increased by the branch network. Velnampy and Nimalathasan [8] indicated that sales are positively associated with profitability ratios except ROE, and numbers of depositors are negatively correlated to the profitability ratios except ROE, likewise, number of advances is also negatively correlated to the ROI, and RAA. Mahoney [3] revealed that the effects of co-specialized information technology (IT) on the growth and performance of IT-investing firms as a driver of competitive advantages. They find strong empirical support for the co-specialization

hypothesis that strategic choices of using IT co-specialization mechanisms are positively associated with firm growth.

Velampy and Nimalathasan [9] examined the effects of the firm size on profitability of Bank of Ceylon and Commercial bank of Ceylon Ltd. Regression analysis revealed that, there was a great effect of firm size on profitability in Commercial Bank of Ceylon Ltd. Based on the literature following hypotheses are formulated for the validity of the literature:

H₁: Organizational growth and performance is significantly association.

H₂: Organizational growth has an impact on performance.

IV. METHODOLOGY

The research explores the relationship between organizational growth and performance of the banks. To measure the performance six measures of financial performance are used as dependent variables in this research. They are, net profit, operating profit, return on investment (ROI), return on equity (ROE), return on average assets (RAA), return on average share holder (RAS). The independent variables used in this study include number of employees (NOE), number of advances (NOA), number of depositors (NOD) and gross income (GI).

Research Design: This research will be an explanatory studies. The emphasis here is on studying a situation or a problem in order to explain the relationship between variables (i.e., Organizational Growth and Performance).

Research Approach: As this paper is a business and management research, it has a characteristic of positivist and interpretivist and also involves in deductive approach as well as inductive approach. Combining these two research approaches in same piece of research is perfectly possible and advantageous for a research.

Sampling Techniques: The study is based on the financial data drawn from the audited income statements and balance sheet in the annual reports issued by the banks in Sri Lanka. The sample size is Commercial Bank of Ceylon Ltd (CBC) for fifteen years 1996 to 2010 in Commercial Bank of Ceylon Ltd (CBC). The reason for restricting to this period was that the latest data for investigation is available for this period. The research is focusing the impact of organizational growth on performance of Commercial Bank of Ceylon Ltd (CBC). According to the variable, the study relates with institutional activity.

Mode of Analysis: In the present study, we analyze our data by employing correlation and Regression. For the study, entire analysis is done by personal computer. A well-known statistical package like Statistical Package for Social Sciences (SPSS) 13.0 version is used in order to analyze the data. The following Table 1 shows the variables and their measures.

Conceptual Framework: Figure 1 shows the conceptual model formulated to disclose the impact of organizational growth on performance.

Table 1: Variables and their measures

Variables	Measures
NOE	No. of Employees
NOA	No. of Advances
NOD	No. of Depositors
GI	Gross Income
Net Profit	Net profit / sales×100
Operating Profit	Net profit before interest & Tax / Sales×100
ROI	Return / Investment×100
ROE	Return / Equity Capital×100
RAA	Return / Average total asset×100
RAS	Return / Average Share Holder×100

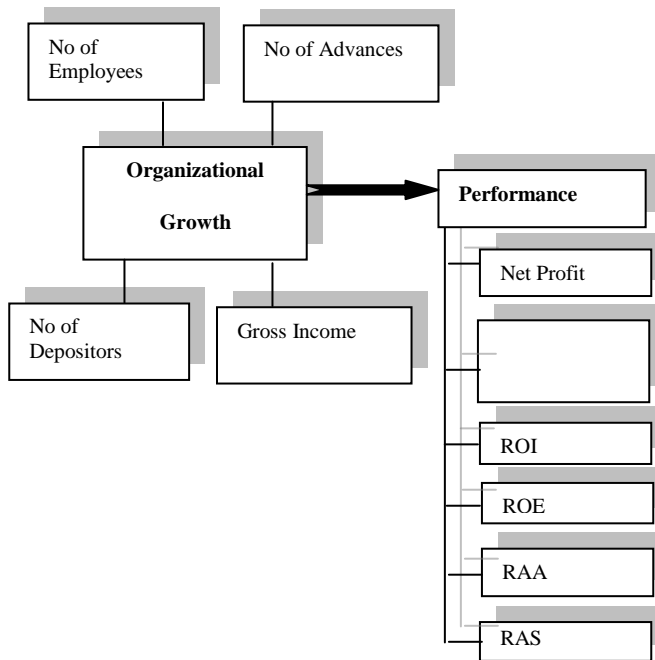


Figure 1: Research Model

From the research model, the following equations are formulated:

$$\text{Model 1: } \text{NPR} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (1)$$

$$\text{Model 2: } \text{OPR} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (2)$$

$$\text{Model 3: } \text{ROI} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (3)$$

$$\text{Model 4: } \text{ROE} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (4)$$

$$\text{Model 5: } \text{RAA} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (5)$$

$$\text{Model 6: } \text{RAS} = \alpha + \beta_1 \text{NOE} + \beta_2 \text{NOA} + \beta_3 \text{NOD} + \beta_4 \text{GI} + \varepsilon \quad (6)$$

where α is a constant, β_s are coefficients of variables, and ε is the residual term.

V. FINDINGS AND CONCLUSIONS

According to the empirical results of this study, the researchers can drive the conclusions regarding relationship between Organizational Growth and Performance: The special reference to Commercial Bank of Ceylon Ltd (CBC) in Sri Lanka.

Correlation analysis revealed that there is a negative association between NPR and NOE and GI (-0.635 and -0.712) which is significant at 0.05 levels. Similar, there is a moderate negative association between RAA and NOE and GI (-0.653 and -0.532). The value of correlation between ROI and NOE, NOA and GI (0.972, 0.495 and 0.939) which is significant at 0.05 levels, represents a positive relationship. Similar, there is positive association between ROE and NOE, NOA and GI (0.979, 0.614 and 0.912) but OPR and RAS are insignificant with independent variables.

Regression analysis revealed that R^2 value is 70.8 % of the observed variability in performance can be explained by the differences in independent variables namely NOE, NOA, NOD and GI.

Here the hypotheses of the present study are tested with the help of the proposed models:

1. It is focused on the point of view of correlation between the organizational growth and performance ($r = -0.655, p < 0.05$). Therefore H_1 is accepted.
2. It can be seen that from the regression analysis which revealed that R^2 is 0.708 it means that performance has an impact on organizational growth at the rate of 70.8% which is significant at 5% level. Therefore H_2 is accepted.

VI. SUGGESTIONS AND RECOMMENDATIONS

The following suggestions are recommended to increase the Organizational growth and performance in view of deposits there is an increasing trend in private banks. Deposits provide more income to banks, as this doesn't require liquidity money in hand. Deposits could be in more profitable long term sectors.

Advertisement is a one of the method to attract the customers. Because it can easily touch the customers mind. These banks are continuously introducing new product through advertisement. But the state banks are not achieving enough to introduce new innovations. It is advisable pay attention for innovative products.

Growth trend of private banks, it is observed that the deposits growth trend is higher in position. This change also happened during the peace process period. Private Banks think about to develop its activities than state banks. In this way attractiveness of customer's percentage has been increasing, private banks are higher trust worthiness than the state banks. The private banks are provided more facilities to the customers.

Apply new ideas, processes, and procedures to their jobs or work units that may be interested in a recent study that examined key variables that help explain employees engage or choose not to engage in innovative behaviour.

Further researches can be found that individuals, innovativeness were affected by their expectations that the behaviour would have a positive impact on performance outcomes.

For employers interested in encouraging their staff to engage in innovative behaviour, the good news is that most of the factors are controllable by management. Based on the study's findings, here are seven practical suggestions for encouraging employees to engage in innovative behaviour.

Enhancing private sector performance is a key goal of element around the world. Innovation in the private sector, particularly in policy development, program design and service delivery is a necessary element in private services becoming better targeted, more responsive to community needs and more efficient. Increasing concerns about climate change, the appropriate regulation of global financial markets and sustainable, effective and fair international development assistance.

A key element of corporate strategy is the recruitment, retention, training and development of staff. Training and development opportunities which enhance innovation capacity within an organization can be quite diverse as it encompasses a broad range of skills. An analysis of future skills needs against the existing skills base can identify where resources might be best directed. Initiatives can range from formal training to participation in networks and communities of practice through to on-the-job exposure and mentoring. Staff exchanges at the highest levels, including across jurisdictions and internationally, can be highly valuable. Private sector might best engage the public sector to use their particular skills and expertise.

An organization's talent management processes and innovation decisions need to reflect the importance of both kinds of thinking. Otherwise it won't be able to create the kind of culture that fosters innovation.

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