CHAPTER 5 : CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusions

Conclusion on Hypotheses Testing

Model 2 added strategic deviation (SD) to test hypothesis 1 and hypothesis 2. The negative coefficient of SD in model 2 (original) supports hypothesis 2 over hypothesis 1. Hypothesis 2 gains further credence because the inclusion of strategic deviation improved the fitness of the model over model 1 (baseline model).

Model 3 added the second order of strategic deviation (SD^2) to test hypothesis 3. The negative coefficient of SD^2 and significant at 0.01 level indicated the inverted U-shape relationship between strategic deviation and performance. Thus, there is support for hypothesis 3. Hypothesis 3 gains greater credence because the inclusion of the second order of strategic deviation improved the fitness of the model over model 1 and 2.

Overall these results support the strategic balance hypothesis over baseline model and hypothesis 1 and 2.

Conclusion on Control Variables Relationship

The coefficient of relative lagged dependent variable was positive and significant, as expected.

The coefficient of market growth was significant but its sign was opposite of what was expected. Base on the data collected, the average relative ROA and market deposit growth for each year are tabulated below: -

Year	1996	1997	1998	1999	2000
Market Growth (%)	23.94	23.19	2.2	8.1	1.9
Average ROA (%)	+0.000	-0.24	0.62	0.64	0.48

From the above tabulation, the relationship of better relative ROA associated with lower market growth is obvious, which is inline with negative coefficient of market growth estimated in hypothesis testing. The negative sign may reflect the situation in 1996 and 1997 whereby market deposit growth was overheated by the economy booming. The sharp expansion in economy activities led to unusual high credit growth in the market. Deposit interest was increased sharply to attract market deposit to meet the high loan demand. The situation was further heated by the TTRS requirement set by BNM earlier which has impact of inducing aspiring bank institutions to increase their asset base in rapid manner to keep up with the required earnings on capital. As such, performance of bank in general deteriorated during strong market deposit growth in 1996 and 1997. Market deposit growth decreased to 2.2% from 23.94% of previous year growth, it was due to the Asian financial crisis. However, the average ROA improved after a series of market consolidations and interventions of BNM through Danaharta, Danamodal and CRDC especially on non-performing loans issues.

The coefficient of market share was positive, it indicated the advantages of economies of scale and market power as expected. However, the significant level of 0.05 is relatively low in statistical analysis.

The coefficient of cost efficiency was negative in contrast to expectation. It has no significant impact on relative ROA.

5.2 Other Suggestions and Comments

There were other limitations in this empirical study that present opportunity for future research. The sample was limited to local commercial banking market in Malaysia. Future research should examine if strategic balance theory applies in other markets facing strong competitive and institutional pressures. Many past researches that examined similar strategy management issues used samples in other markets such as education centers, hospitals, child care companies, hotels, insurance companies, banks, railroad companies, news paper companies, airline companies, security companies and media companies. However, the specific strategic resource commitments in these markets may vary. Within these industries, strategic norm may develop around different resource commitment, such pricing, innovation or product promotion.

The theory examined only one type of organization difference namely strategy. Strategy was used because it sets the overall direction of the organization (Deephouse, 1999). However, other organization characteristics may be important, such as technology, risk management, organization structure, number of branches or marketing. Conformity in one characteristic may offset differentiation in another. By incorporating these other characteristics, the theory of strategic balance may evolve to a more general theory of firm balance.

There are other alternatives in the measurement of strategic similarity. This study used averages of organization strategies as reference points. Some researches on competition used pairwise comparisons, which compute distances between the focal firm and every other firm on several dimensions before aggregating to a summary measure. There are other alternatives to measure the degree/distance of differences. This study used standard deviations to measure distance. Linear and Euclidean (i.e, squared) distance have been used in other studies. In general, Pairwise methods might better reflect competition between individual organizations, whereas standard deviation methods might better reflect the legitimation of a firm within the industry.

This study focused on linear relationship. The relationship between differentiation and performance, but this relationship could be nonlinear such as suggested by the economic property of diminishing returns. The relationship that strategic conformity increases legitimacy which increases performance, could be nonlinear as well. Organizations within certain range are similar enough to be judged legitimate by the organizational field. Thus strategic similarity does not influence legitimacy within this range group but could influence legitimacy between organizations in different ranges or at strategic group level.

This study did not measure the relative strengths of competitive forces in the market and legitimating forces in the institutional environment. Different market may face different relative strengths of competitive force and legitimating forces depend on the nature of conducts of the businesses. Firms with high strategic similarity were assumed to face competition that was more costly than the benefits of legitimacy. Firm with low similarity were assumed to face legitimacy challenges that were more costly than the benefits of reduced competition. Future research should develop ways to compare these forces.