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ORGANISATIONAL MODELLING OF NIGERIAN BANKS : SURVEY FINDINGS

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Abstract

This empirical study investigated the likely impact of organisation structure on the cost efficiency and profitability of Nigerian banking enterprises. In this search, we probed into the structure of their decision-making, delivery channels and operations. We also studied their organisational characteristics in terms of style, structure and systems, including the fundamental shift from industrial-age banks to information-age banks. With data generated from 24 out the 26 banks quoted on the Nigerian Stock Exchange as at December 2003, we found that banks adopting the M-form organisational structure showed superior cost-efficiency and profitability, while those adopting the U-form recorded an operating expenses ratio above the industry average, and a Return on Total Assets (ROTA) below the industry average. An organisational model of Nigerian banking enterprises requires renewal facilitators to rethink corporate values and attitudes, the basis of managerial authority, management decision-making and systems orientation towards strategic entrepreneurial planning and forward control. Core competencies are also needed to manage sporadic policy and regulatory shocks, as well as deal with the internal limitations of bounded rationality, opportunism and subgoal pursuit.

Key words: Banking; Organisation Performance; Networking; Virtualness; Nigeria.

JEL Classification : G21, N27

Introduction

The increasing wave of banking crises globally has attracted a lot of theoretical and empirical studies on their root causes. The analysis based on asymmetric information applied to elucidate the structure of the financial system and the rationale for bank regulation, has also been used to develop a theory of banking and financial crises (see Bernanke[1]; Calomiris and Gorton[2]; and Mishkin[3]). In the context of asymmetric information theory, a financial crisis is a nonlinear disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to economic agents who have the most productive investment opportunities. The empirical studies attribute banking crises to macroeconomic phenomena (Gavin and Hausman[4]), poor information markets and major swings in relative prices (Caprio[5]) and financial liberalisation (Caprio, Jr. and Klingebiel[6]). General uncertainty and speculative bubbles led by excessive credit growth are other commonly cited factors.

Deregulation of Banking

In Nigeria, the deregulation of the banking system in 1986 led to a sporadic increase in the number of operating banks from just 45 in 1955 to 119 in 1992. The number has however reduced to 90 as at 2003, with 29 banks closed by the Central Bank of Nigeria. **It is also noteworthy that about 40 of the surviving 90 banks are in various stages of distress. A number of studies have attributed the rising bank distress in Nigeria to excessive government involvement in banking business, macreconomic policy distortions, financial sector liberalisation, managerial inefficiency and poor asset-liability management** (Toby[7]).

To the best of our knowledge, no study has been able to demonstrate the likely effects of organisational structure on bank performance in Nigeria. The transition from a highly regulated banking environment (1980-85) to a deregulated financial sector (1986-1992) created organisational challenges which need to be studied. The older, larger banks, most of which were

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either government-owned or government-controlled inherited a bureaucratic organisational structure from their government owners or majority shareholders. The challenges of cost-competitiveness and the eroding oligopolistic structure of the banking industry necessitated their restructuring after privatisation in 1992. There is therefore a need to study their structure of internal decision-making, delivery systems and operations, including their organisational forms and their impact on bank efficiency and profitability.

One of the outstanding recent studies in this area is that of Hunter (1995) which provides empirical evidence on the impact of internal organisational structure on bank costs in the U.S.A. Hunter found that centralised decision-making tended to increase costs. It was also found that centralised service delivery systems either increased or had an insignificant impact on costs. In no case did centralised service-delivery systems reduce costs as envisioned by proponents of centralisation : also found that centralised back office operations significantly reduced costs. Hunter argued that banks with decentralised decision-making recorded increasing returns to scale which agrees with the findings of Hunter and Timme[9] and Hunter, Timme and Yang[10]. These studies examined scale economies for large U.S. banks but did not include organisational variables of the type included in Hunter study. If the tenets of organisational economics that relate elements of internal structure to the productive efficiency of firms are robust across industries, then managerial and public policy prescriptions drawn from empirical studies of bank production and cost functions that take account of these influences should be better informed than those that ignore them.

Banks in Nigeria must have to have to cope with different change situations. The two major factors driving change in organisations are globalisation and technological innovation (Hames[11]). Essentially the globalisation of markets is causing a transformation of the way in which organisations compete and develop their business processes (Naisbitt[12]). It is also affecting their decision-making nodes. Thompson and Tuden[13] relate the mode of decision-making to the type of and level of uncertainty and agreement. Duncan[14] relates modes of decision-making to degrees of environmental complexity and stability. Then Perrow[15] provides a model of the technology appropriate to different conditions.

Within this framework our study is intended to answer the following questions.

- What is the structure of decision-making, delivery systems and operations in Nigeria's quoted banks?
- What are the organisational forms and how do they relate to bank efficiency and profitability?
- What are the organisational implications of Types I, II, and III banks.
- To what extent is the bank's organisational structure responding to the fundamental shift towards an information-age banking organisation.

Our results would enable us address the organisational barriers to efficiency and profitability in the quoted banks. The study would also highlight organisational typologies in the Nigerian banking industry and the associated implications. We also intend to highlight the variables that are necessary for the redesign of Nigerian banking organisations in an increasingly competitive banking environment.

Prelude

In reviewing existing literature on organisational modelling, we shall draw heavily from the works of Hunter on internal organisation and economic performance of banks, Fugg and Ram[16] on networking and the fundamental shifts and Saabeel, et. al.[17] on organisational virtualness. First, we begin with the relevant sociology of knowledge on organisational types and structures.

Organisational Types and Structures

A major purpose in defining an organisation type is to be able to distinguish one class of organisation from another (**International Encyclopedia of Business and Management**[18]). A typology provides a system of types whereby classes of organisation can be distinguished according to their relative position on a number of predetermined variables. A major argument for the use of a typology in organisational management and organisational literature is to move away from reductionist theory, with its emphasis upon bivariate relationships and framentation, toward a more holistic perspective.

Bureaucracy, as identified by Weber is often taken as a starting point for organisational theory. For Weber, bureaucracy formed part of a wider system of types of authority, with bureaucracy itself seen as based upon rational-legal authority in contrast with the traditional and charismatic authority types. Thompson[19] provides

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an elaborate system of types relating to various aspects of organisation. There are types of interdependence, coordination, technology, decision making and performance standards, but a particular contribution of Thompson's system of types is to allow them to interact with one another to provide a dynamic view of the organisation.

In a survey of the sociology of knowledge on organisation structure, three models are identified: the archetypical bureaucracy; the stakeholder model; and newer ways of thinking, especially the reflective theories. Structure formation could be seen as a process of generating and recreating meaning, one in which organisational members wish to secure their 'provinces of meanings' (Berger and Luckmann[20]) within the very structure and working of the organisation.

Under the archetypal bureaucracy, structure is seen as the steering mechanism in the hands of the leader. The archetypal bureaucracy (rationality, task specialisation, hierarchy, regularity) arose with the modernisation of social relations. Theoretical and empirical research into variants of the bureaucratic organisation include the works of Blau and Scott[21] with their cui bono principle (who has an interest in the results of the organisation?), Etzioni[22] with 'compliance' (questioning the way people subordinate themselves to the organisation), the Aston group(Pugh, et. al.[23]) with an empirical taxonomy of organisations, and Mintzberg[24] with the way in which coordination comes about within organisations presents structure as an instrument in the stockholders' struggle. The new ways of thinking on organisation place in a new light a lot of theoretical and empirical research in recent times into culture (Hofstede[25]), into metaphors (Morgan[26]), into learning forms (Argyris and Schon[27]), into dynamic organisational variants and into fields such as total quality management and the related paradigm shift.

Organisational Structure and Firm Performance

Organisational economics concerns itself with the study of organisations and organisational phenomena using concepts taken from contemporary organisational behaviour, and microeconomies. Among the many noted contributors to the field of organisational economics, we draw heavily on the works of Beckmann[28], Chandler[29], and Williamson[30].

The fundamental factor distinguishing organisational economics from traditional microeconomic analysis of the firm is that the former views the firm as an organisation that competes with the market as a mechanism for allocating resources, as opposed to an abstract entity characterised by a production function and an objective of profit maximisation. Under this view, firms and markets represent alternative mechanisms for providing the coordination, control, and monitoring required for the efficient allocation of resources. For a given organisational form to survive in the long term, it must provide higher net returns than alternative institutional arrangements.

Among internal organisational structures, the ones tending to predominate over time are those that tend to minimise transaction costs. According to Alfred Chandler[31] and Oliver Williamson [32], the optimal structure from this point of view is the multidivisional form (M-form), as opposed to the older and more traditional unitary form (U-form). Williamson actually describes a range of organisational forms in his 1975 book. These include the corrupted H -, U -, and M – forms, and variations of these.

The U-form is a centralised multifunctional, organisational structure in which the major active units are functional divisions. That is, there is specialisation by function, such as production, sales, finance, and research and development, with decision-making responsibilities located at the top levels of the organisation. The U-form favours the realisation of economies of scale and the internal specialisation of labour, but as the firm expands this form creates the following set of problems:

- Bounded rationality – managers cannot act optimally because they cannot process large volumes of information.
- Opportunism - the tendency for managers and employees to engage in behaviour benefiting themselves as opposed to stockholders; and
- Subgoal pursuit – placing short-term non-profit maximising goals ahead of long-term value-maximising goals.

These problems make it difficult for the firm to achieve global profit maximisation. Compared with the decentralised structures, the U-form favours a less efficient pyramidal and bureaucratic hierarchy within which capital, labour, and information are allocated. In contrast, the M-form substitutes quasi-autonomous operating divisions of the U-form. These operating divisions are organised mainly along product, brand,

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market, or geographical lines. Each of the divisions may subsequently be divided along functional lines to ensure its autonomy or independence from heavy-handed decision-making within higher levels of the organisation. Under the M-form, strategic decision making occurs in the general or head office, while operating decisions are assigned to the divisions. This structure affords the divisions a large degree of autonomy, allowing them to take their own risks in much the same way that an independent firm would. Each division constitutes a quasi-firm (profit centre) managed to achieve a specific objective.

The M-form combines the best features of centralisation (such as realisation of economies of scale) and decentralisation (such as providing proper incentives for profit maximisation). As such, it creates a superior organisational structure compared to the U-form and the external market. Williamson's hypothesis essentially states that the M-form organisational structure favours goal pursuit and least-cost behaviour than does the U-form.

Not surprisingly, Williamson's hypothesis has been subjected to numerous empirical tests. Studies by Armour and Teece[33], Burton[34], Cable and Dirrheimer[35], Cable and Hirohiko[36], Roberts and Viscione[37] and Thompson[38] are only a few of those providing empirical support. The results favouring the M-form organisational structure have generally proved robust not only across industries, but across countries as well. However, with the exception of the article by Roberts and Viscione, which examines captive finance companies, all of the above examined nonfinancial firms.

Organisational Networking

The organisation, as we currently perceive it, is a reflection of a set of forces that have shaped it from a now bygone era. Our organisations have been structured hierarchically and clustered geographically, primarily as a response to our previous inability to communicate large bodies of information to large audiences (the workforce) rapidly. In the emerging organisation, there is no longer a justification for multi-layered structures to filter information up to the management, nor for a geographical cluster to facilitate horizontal communication.

Networking is emerging as an organisational form, including linkages to supplier and customer organisations. A significant supporting component of making the networked organisation possible is the emerging capacity to instantaneously disseminate all information about the organisation to all employees and strategic partners of the organisation, in all its geographic locations (Kanter[39]).

For an organisation seeking to survive in deregulated globalised markets, the structural implications are significant. Beyond forming a networked organisation, firms will have to pay attention to their ability to compete within an information age - their data capture, analysis and dissemination will have to be focused, fast, and future-oriented.

Fagg and Ram have noted subsequently as follows:

> The ability to manage this process will largely determine profitability. Firms will need to recognise that changes in the mosaic of global markets will occur rapidly; that the response time within the organisation to these changes will need to be rapid; that those dealing with customers must be in a position to respond flexibility to demands for product and service customisation. The multi-layered hierarchical organisations of our immediate past were incapable of functioning in such an environment. Decisions were made slowly and, usually, centrally, and structures changed even more slowly.

The networked model provides the basis for a solution, but, in itself, that is not enough. The nodes of the network, must be sufficiently knowledgeable of the purpose and strategy of the organisation to be able to make a local response. This implies dispersed decision-making within a strongly shared and understood organisational vision. The values within the network need to be ones of collaboration and recognition of significant levels of interdependence as well as of conviction regarding the possibility and need for a collective learning of competencies (O'Brien and Buono[40]).

Beyond the existence of a network with effective nodes, the organisation must be constantly aware of the rise and fall of the waves of changing customer demand for products and services. The network will progressively experience an emerging chaos in the demand for its services and product declines. At this point, the organisation must reinvent itself if it is to survive. The strategies and processes being followed on the rising part of the wave will need to be replaced if the organisation is to break through and emerge on a new crest (Handy[41]).

Nigerian Banks in Perspective

Evidence of the frequent crises for organisational

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survival is widely available. The lifespan of major corporations is becoming shorter. From 120 banks in 1986, the number of operating banks in Nigeria has reduced to 90 as at end of 2003, or by 25 per cent. More worrisome is the fact that about 44 per cent of the surviving banks are in various stages of distress, hence the recent call by the CBN on these banks to consider merger as a strategic survival option.

Within the networked organisation, the role of the manager must be focused differently. It must be understood that a fundamental shift away from hierarchical structures implies relinquishing much of the central decision-making process of the organisation. The concept of empowerment is overtaken by the concept of subsidiary – of power residing, by right, with the nodes, and the nodes in turn, requesting co-ordination and other assistance from the central management only as required (Handy). The role of central management becomes one of setting the visions, permeating the organisation with a sense of purpose and a set of values, strategic investments, involvement in staff selection, and the provision of supportive services when requested by the nodes of the organisation.

Organisational Virtualness

In order to develop a model of the virtual organisation, Saabeel, et. al. describe both structure and process elements. Most contributions in recent literature deal with the structure of virtual organisations. Little emphasis is put on the process of formation, operation, and termination of virtual organisations. Saabeel, et. al. argue that if we can clarify the relationship between structure and process of virtual organisations, it becomes possible to drive the process of organisational change in the virtual organisation. In organisation literature, Mintzberg and Robey[42] describe structure and process of organisations, without explicitly integrating them into a single model for virtual organisations.

So far, empirical analysis of virtual organisations is limited to the description of a number of examples of successful organisations such as Dell (Margetta[43]) Amazon (Kotha[44]) and Airbus (Thornton[45]). While a number of authors have suggested that virtual organisation leads to agile response of organisations, at present there seems to be little or no literature available that either empirically justifies this conjecture or provides logical arguments for it. However, intuitively it does quickly make sense to assume that virtual organisation is a well suiting organising principle to create quickly an organisation out of modular components to respond to the requirements of mass customisation , extended products and globalisation.

The research field of virtual organisation is pre-scientific, with contributions that have not yet amalgamated into a broader theoretical framework. Many of the contributions focus on functional aspects, like information technology required in the virtual organisation (Espinasse, et. al.[46]); Strader, et. al.[47]), logistic issues (Bastos and Sousa[48]), legal issues (Pletsch[49]), human resource management (Coyle and Schmarr[50]), and financial aspects (Swagerman and Steenis[51]). Authors relate the concept also to other business concepts, like knowledge management (Campbell[52]), flexible or dynamic networking (Miles and Snow[53]), agile competition (Goldman, et. al.[54]), business process redesign and supply webs (Franke[55]). Again, others describe different types of virtual organisation (Aken, et. al.[56]) or its life cycle (Strader, et. al.). Each of these authors emphasises different characteristics of the virtual organisation. Their contributions are valuable to a better understanding of the virtual organisation, but do not yet provide a comprehensive view on its design and dynamic functioning.

Most definitions of the concept of virtual organisation start with stating that it is "a network between organisations or individuals ...". Because these definitions focus on the building blocks of the virtual organisation and their properties, Saabeel, et. al. call this the structure perspective towards virtual organisation. Few definitions take a different starting point and state that virtual organisation is an approach to management or a strategic approach. Saabeel, et. al. consider this the process perspective, because the focus is on behaviour or operation.

In terms of systems theory, Saabeel, et. al. depict the virtual organisation as a purposeful system that is composed of a set of interrelated elements (Ackoff[57]). The authors consider the virtual organisation a type of cooperation (network, alliance) between organisations, companies, groups, or individuals. Other authors define the network as a combination of core competencies or activities:

- A temporary network of independent companies that come together quickly to exploit fast-changing opportunities (Bryne[58]).

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- An opportunistic alliance of core competencies distributed among a number of distinct operating entities within a single large company or among a group of independent companies (Goldman, Nagel and Preiss).
- Less a discrete enterprise and more an ever-varying cluster of common activities in the midst of a vast fabric of relationships (Davidow and Malone[59]).

Thus, the elements within the virtual organisation are actors (such as organisations and individuals), resources (such as core competencies), and activities. Actors, activities and resources are interdependencies, and exchange relations. The state of a system at a moment in time is the set of relevant properties, which that system has at that time. The properties that authors associated with virtual organisation are for example: temporariness (Byrne,Wuthrich and Phillip[60]), opportunism (Wilderman[61]; Davidow and Malone) and ICT-based (Byrne). Furthermore, the organisation is called dynamic (Wuthrich and Phillip), flexible (Davidow and Malone) or continuously changing, amorphous, hybrid, and reforming (Grenier and Metes[62]; Davidow & Malone).

Ackoff defines a process as 'goal-producing behaviour that is composed of events that constitute changes in the structural properties of the system or its environment'. For a virtual organisation this implies that where there is a change in the environment and/or internal state that reduces its efficiency in pursuing one or more of its goals, it reacts or responds by changing its own state or that of its environment. This system process is something which Mintzberg calls design. Design assumes the ability to alter a system. In the case of organisation process, design means turning those knobs that influence the division of labour and the co-ordinating mechanisms, thereby affecting how the organisation functions, how materials, authority, information, and decision processes flow through it.

There are a few authors that study the concept of virtual organisation in terms of a process in order to describe its behaviour. Venkaraman and Henderson[63] define, what they call 'virtual organising', as a strategic approach. Their strategic approach is focused on creating, nurturing and deploying intellectual and knowledge assets while sourcing physical assets in a complex network of relationships.

Methodology Used

Our analysis of the likely impact of organisational structure, with particular respect to internal decision-making, on bank efficiency and profitability is based on data generated from 24 out of the 26 banks listed in the **Nigerian Stock Exchange (NSE) Factbook (2003)**. Two of the banks, Cooperative Bank Plc and First Atlantic Bank Plc, were dropped from our analysis due to the unavailability of the data for Return on Total Assets (ROTA) and operating expenses ratio in the NSE 2003 Factbook. The investigated 24 banks accounted for 92.3 per cent of quoted banks as at December 31, 2003.

Financial Characteristics of Selected Banks

The data in Appendix A present the total assets, Return On Total Assets (ROTA) and operating expenses ratio of the 24 quoted banks as at December 31, 2003. The operating expenses ratio, a measure of cost efficiency, is obtained by dividing the bank's operating expenses by its gross earnings. The results from Appendix A are summarised in **Table 1**, according to bank size using total assets as the index. The banking sector accounted for 28.5 per cent of total market capitalisation in 2002.

TABLE 1
COST EFFICIENCY AND PROFITABILITY RATIOS OF QUOTED NIGERIAN BANKS : 2002

Types of Bank	Size Based on Total Assets (N'bs)	No/Percentage of Banks	Operating Expenses Ratio	ROTA
I	More than N60billion	6(25%)	0.82	2.37
II	N21billion – 59 billion	4(16.7%)	0.83	2.32
III	N20billion and below	14(58.3%)	0.86	2.18

Note: These 24 banks constituted 84.3 per cent of total assets of commercial banks in 2000.
Source: Author's calculations from the **Nigerian Stock Exchange Factbook : 2003.**

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For the purpose of our study, the banks were categorised into Types I, II, and III banks according to their total assets. The large banks, 6 in the group accounting for 25 per cent of the studied banks, fall into Type I banks with an asset base exceeding N60billion as at 2002. The Type II banks are mainly medium-sized banks with total assets in the region of N21billion – N59billion, while the Type III banks, constituting 58.3 per cent of the total quoted banks, are mainly small banks with total assets of N20billion and below. These categorisations enabled us to study the relevant organisational features of these banks in terms of their internal decision-making form, style, structure and systems by relating clearly these criteria to cost efficiency and profitability measures.The results in **Table 1** show that the large banks are more cost efficient and profitable than the small and medium-sized banks. We will therefore need to probe further their organisational characteristics.

Data Analysis

In order to address our major research questions, five copies of the structured questionnaire were administered on very senior bank executives from the status of General Manager and above in each of the 24 banks. The author was at the corporate headquarters of these banks, where he equally had some useful interactions with these senior executives. Essentially, we were interested in obtaining answers to the following questions:

- What is the bank's organisation structure in terms of decision-making, delivery systems and operations?
- Is the bank's organisation form the U-form or M-form or a combination of both?
- What is the likely relationship between organisation form and bank performance?
- What are the organisational implications of Types I, II and III banks in terms of style, structure and systems?
- Is there any fundamental shift from the industrial-age banking organisation structure and to what extent is this feasible?

The response rates to the questionnaire were varied. In Type I banks (large commercial banks), we achieved 50.0 per cent response rate, Type II banks gave a response rate of 80.0 per cent, and Type III banks (small commercial banks) a response rate of 47.1 per cen. On the average, we have a response rate of 59.0 per cent or 71 respondents completed and returned copies of the questionnaire out of the 120 copies administered.

Scaling Organisational Form

In order to find out the extent each of the banks adopted the U- and M-form, we ranked the responses of senior executives on an eight-point scale describing the features of their internal decision-making form. The average responses were however reported. The extent of the organisation's fundamental shift from an industrial-age to an information-age organisation was evaluated on a five-point scale. The characteristic features of these two types of organisations are well documented in Fagg and Ram. The five-point scale is based on most unlikely (1 point), unlikely (2 points), least likely (3 points), likely (4 points), and most likely (5 points). For instance, it is mostly likely that an industrial-age banking organisation will be characterised by hierarchical, linear information flows, as distinguished from a virtual organisation characterized by multiple interface, and 'boundaryless' information networking. The current move by most banks towards meeting the information and communication technology (ICT) challenge in the financial services industry might have been responsible for our obtaining absolute averages in the fundamental shift analysis.

Research Findings

We shall now present our results according to our major research questions. The first research question investigates the structure of decision-making, delivery systems and operations in the 24 banks. The second question appraises the organisational forms adopted in the banks and relates these to efficiency and profitability. The third question explains the organisational implications of Types I, II and III banks. The fourth question examines the fundamental shift in these banks towards the information-age banking organisation or network banking. We shall finally summarise our findings and their implications for remodeling the Nigerian banking organisation.

Question 1: What is the structure of decision-making, delivery system and operation in Nigerian quoted banks?

The data in **Table 2** would enable us to answer our first research question. The results show that 58.3 percent of the banks implement decentralised decision-making in their internal organisational structure, as opposed to 41.7 per cent that adopt centralized decision-making.

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Moreover 79.2 per cent of the banks adopted decentralised delivery system as competition for cheap core deposits intensified. These banks could have seen this strategy as a means of reaping large economies of scale in a highly competitive environment. Just 20.8 per cent of the banks still retained centralized delivery system. This must have been the practice in erstwhile merchant banks that transited to universal banking recently. It is also worthy of note to mention that in most decentralised delivery systems, the branch continued to be the most important channel of delivery. Only very few banks installed Automated Teller Machines (ATMs). The tendency towards virtual banking has been limited by the slow pace in information and communication technology (ICT) development.

TABLE 2
STRUCTURE OF 24 SAMPLED COMMERCIAL BANKS : NIGERIA

	No. of Banks	Percentage of Total
A. Decision-making		
Centralised	10	41.7
Decentralised	14	58.3
B. Delivery systems		
Centralised	5	20.8
Decentralised	19	79.2
C. Operations		
Centralised	5	20.8
Decentralised	19	79.2

Source: Author's Survey Findings

In line with the structure of delivery systems, 79.2 per cent of the banks adopted decentralised operations, as opposed to 20.8 per cent adopted centralised operations. Type I (large) banks dominated the share in decentralised delivery system and operations, with internal decision-making largely centralised. The small and medium-sized banks are more decentralised in internal decision-making but more centralised in operations and delivery systems.

Question 2: What are the organisation forms adopted by the banks and how do these relate to their efficiency and profitability?

The results on organisational forms and bank performance are presented in **Table 3**. All the banks have greater tendencies towards the M-form organisational structure with most of them substituting quasi-autonomous operating divisions characteristic of most banking organisations before the deregulation of the Nigerian financial system in 1986. These quasi-autonomous operating divisions were organised mainly along product, brand, market, or geographic lines. In these banks each of the divisions was subsequently divided along functional lines to ensure its autonomy or independence from heavy-handed decision-making within the higher levels of the organisation. Under the M-form in these banks, strategic decision making occurs in the head office, while operating decisions are assigned to the divisions. The results also show that the M-form combines the best features of centralisation (such as realisation of economies of scale) and decentralisation (such as providing proper incentives for profit maximisation).

However, all the banks portray some reasonable traces of the U-form, on the average this is 0.37 on the 8-point scale. The U-form organisational structure is more

TABLE 3
ORGANISATIONAL FORM AND BANK PERFORMANCE : NIGERIA

Form/ Measure	Type I Banks (n=6)	Type II Banks (n=4)	Type III Banks (n=14)	Overall Average
U-Form	0.30	0.40	0.41	0.37
M-Form	0.67	0.55	0.44	0.55
Operating expenses ratio	0.82	0.83	0.86	0.84
Return on total assets (ROTA)	2.37	2.32	2.18	2.29

Note: Average values are reported. The response of senior executives are averaged on a 8-point scale.
Source: Appendix

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APPENDIX
FINANCIAL CHARACTERISTICS OF NIGERIA'S QUOTED BANKS
(Based on 2002 Data*)

	Financial Characteristics			Scaling Organisational Forms	
Bank*	Total Assets (N Million)	Operating Expenses Ratio**	Return on Total Assets	U-Form	M-Form
Access Bank	N11,342.9	1.01	(0.16)	0.6	0.2
Afribank	N83,210.0	0.86	2.16	0.4	0.6
African Express Bank	N1,003.6	0.94	0.26	0.8	0.2
Chartered Bank	N33,015.9	0.68	3.81	0.2	0.6
Cooperative Development Bank	N6,895.4	0.93	1.47	0.6	0.2
EIB International Bank	N8,782.1	0.83	4.70	0.2	0.8
First Bank	N290,593.0	0.87	1.64	0.4	0.6
FSB International Bank	N31,302.2	0.86	1.68	0.6	0.4
Guaranty Trust Bank	N65,021.2	0.72	4.58	0.2	0.8
Gulf Bank	N13,974.8	0.74	6.66	0.2	0.6
Hallmark Bank	N31,661.6	0.78	3.58	0.4	0.6
IMB International Bank	N8,786.7	0.80	3.09	0.6	0.2
Inland Bank	N16,646.1	0.83	2.95	0.4	0.4
Intercontinental Bank	N63,213.6	0.82	3.17	0.2	0.8
Liberty Bank	N9,096.1	1.47	(7.59)	0.4	0.4
Lion Bank	N10,973.4	0.75	3.41	0.4	0.6
Manny Bank	N5,539.2	0.72	5.17	0.2	0.8
NAL Bank	N21,468.0	0.99	0.19	0.4	0.6
Omega Bank	N17,289.0	0.82	3.05	0.4	0.4
Regent Bank	N3,336.0	0.44	2.59	0.6	0.4
Trade Bank	N10,791.9	0.91	1.65	0.6	0.4
Trans International Bank	N13,135.0	0.80	3.27	0.2	0.6
United Bank for Africa	N200,196.0	0.89	0.78	0.4	0.4
Union Bank	N299,755.0	0.77	1.88	0.2	0.8

Notes : * The 2002 figures were not available for the following banks, African Express Bank, Cooperative Development Bank, EIB International Bank, IMB International Bank, Liberty Bank, Manny Bank and Omega bank. Hence we used the readily available data for either 2000 or 2001.

** Operating expenses ratio is operating expenses divided by gross earnings

Source: NSE Factbook 2003 and author's computations.

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pronounced in Type II (medium-sized) and Type III banks (small) than it is in Type I (large) banks. Some of the banks pursued a centralised multifunctional organisational structure in which the major active units are functional divisions. There is a specialisation by function such as customer services, credit and marketing, treasury and investment, administration, and specialised financial services, with decision making responsibilities located at the top level of the banking organisation. Most of the small and medium scale operate cash offices with lending, treasury and investment decisions located at the Head Office.

The questionnaire results show, however, that the banks adopting U-form organisational structure are characterized by bounded rationality, opportunism and subgoal pursuit. Bounded rationality means that managers cannot act optimally because they cannot process large volumes of data. A recent survey by the Central Bank of Nigeria (CBN) confirms that most banks are not as much automated as they claim to be. Opportunism is the tendency for managers and employees to engage in behaviour benefiting themselves as opposed to stockholders. The U-form organisational structure promotes subgoal pursuit by placing short-term non-profit maximizing goals ahead of long-term value-maximsing goals. These problems of the U-form became apparent within the deregulation period (1986-92) when bank executives were faced with managing rapid change. The CBN has recently attributed the high cost of doing business in the banking industry to the flamboyant lifestyles of top executives of mostly small and medium-sized banks.

In relating these organisational forms to bank efficiency and profitability, it is clear from Table 3 that the Type I (large) banks adopting predominantly the M-form organisational structure – had an average operating expenses ratio of 0.82 and return on total assets (ROTA) of 2.37. It is noteworthy that the operating expenses of ratio of 0.82 is below the industry average of 0.84 showing superior cost efficiency in the large banks adopting the M-form organisational structure. In terms of profitability, the return on total assets (ROTA) for these large banks exceed the industry average by 0.08 or 3.5 percent. The medium-sized banks lagged behind the large banks because of their pronounced U-form characteristics. However, there was evidence that they endeavoured to combine the best aspects of centralisation (U-form) and decentralisation (M-form) to attain an operating expenses ratio of 0.83, below industry average by 0.01 and a return on total assets (ROTA) of 2.32 above industry average by 0.03.

However, the smaller banks (Type III) performed below industry averages owing to the pronounced impact of the U-form organisational structure. On the average the Type III banks recorded an operating expenses ratio of 0.86, above the industry average by 0.02. The return on total assets (ROTA) was 2.18 below the industry average by 0.11 or 4.8 percent. The dominant impact of those small banks adopting the U-form organisational structure mainly characterised by centralised decision-making could have contributed to their comparative cost inefficiency and low profitability due to the limitations posed by bounded rationality and opportunism. The centralised multifunctional structure arrogates core competencies to functional managers reporting directly to the Head office, without tapping the skills of branch managers in managing risk profitably.

Question 3: What are the organisational implications of Types I,II and III Banks?

In order to understand more clearly the organisational implications of these three classes of banks, **Table 4** highlights the style, structure and systems of Type I, II and III banking organisations.

In terms of style, Type I banks are established, but not always alert and responsive. They are only reactive as challenges in the operating environment occur. This may be due to the existence of bureaucratic structures inherited from erstwhile owners. The Type II banks are entrepreneurial, aggressive and lean in size. The Type III banks are creative and flexible. In terms of structure, the Type I (large) banks have strong support for centralised strategic decision-making, with decentralised operating divisions. However, the small and medium-sized banks have largely centralised multifunctional structures. The systems orientation in the large banks (Type I) is minimal, with emphasis on cost control. In the medium-sized (Type II) banks, the emphasis is on marketing, planning and costs systems, while the

Type III (small) banks emphasise creative planning and marketing approaches. However, the initiatives and decision-making in critical areas such as treasury, investment and credit rest with a management elite at the top. The branch manager reports to this elite class.

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TABLE 4
ORGANISATIONAL IMPLICATIONS OF TYPES I, II AND III BANKS

	Type I	Type II	Type III
Style	Established, but not alert and responsive; reactive.	Entrepreneurial; aggressive; lean.	Creative and flexible
Structure	Strong functional support for centralized strategic decision-making, but decentralised operating decisions.	Largely centralised multifunctional structure.	Largely, centralised multi-functional structure.
Systems	Emphasis on cost control; minimal systems orientation	Emphasis on marketing, planning and cost systems	Emphasis on creative planning and marketing approachs

Source : Author's Survey Findings

Question 4: What is the fundamental shift away from the industrial-age banking organisation to the information-age organisation?

The results in **Table 5** show that Type I (large) have the following organisational characteristics; (1) Focus on measurable outcomes using autocratic management and inspection, as opposed to focus on strategic issues using participation and empowerment, (2) Highly specialised knowledge base resulting in single skilling, instead of interdisciplinary knowledge base resulting in multiskilling, (3) Clearly differentiated and segmented organisational positions, roles and responsibilities, instead of matrix arrangements - flexible positions, roles and responsibilities, (4) Reactive in solving problems as they emerge – a short-term focus dominated by the bottomline, instead of being proactive in anticipating issues before they can become crises. Balance is hardly achieved between short-term pragmatism and long-term purpose, (5) Hierarchical, linear information flows, instead of multiple interface, and 'boundaryless' information networking that characterise modern banking organisations, (6) Attention to quantitative differences, instead of qualitative differences, and (7) Information and Communication technology is targetted for investment, instead of development of people targetted for investment. The investment in information and communication technology far exceeds the investment in human resources development. The small and medium-sized banks (Types II and III banks) show greater tendencies towards the information-age banking organisation, as initiatives for improvement emanate from all directions, instead of proceeding from a management elite. Most of these banks are future-oriented, operating at the cutting edge. They emphaise team accountability and interdisciplinary knowledge base resulting in multi-skilling. The adaptation of the older larger commercial banks to the new organisational realities is at a higher cost. With their present comfortable cost profiles, it is likely that greater adaptation to the challenges of globalisation, information and communication technology changes and increasing competitive pressures would enhance greater efficiency and profitability.

Conclusions and Implications for Policy

Our analysis so far including the results can be summarised as follows:

1) 58.3 per cent of the quoted Nigerian banks adopt decentralised decision-making, as opposed to 41.7 per cent of the banks adopting centralised decision-making. However, 79.2 per cent of the banks adopt decentralised delivery systems and operations, as opposed to 20.8 that adopt centralised delivery systems and operations. The branch continues to remain as the most important delivery channel.

2) Most of the respondents show greater tendencies of their banks towards the M-form organisational

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TABLE 5
STRUCTURAL CHARACTERISTICS OF QUOTED NIGERIAN BANKS
(Average Responses)

	Characteristic	Banks			
		Type I	Type II	Type III	Average
1)	Focus on measurable outcomes using autocratic management and inspection	4.8	3.7	3.0	3.8
2)	Highly specialized knowledge base resulting in single skilling	4..5	2.4	1.8	2.9
3)	Individual accountability	3.2	3.4	3.0	3.2
4)	Clearly differentiated and segmented organisational positions, roles and responsibilities	4.0	4.1	4.0	4.0
5)	Linear input-output programmes	3.1	2.8	2.3	2.7
6)	Reactive in solving problems as they emerge – a short-term focus dominated by the bottomline	4.0	3.1	3.2	3.4
7)	Local perspective informs programming	2.5	1.2	1.0	1.6
8)	Hierarchical, linear information flows	4.0	2.0	1.5	2.5
9)	Attention to quantitative differences	4.8	3.8	4.0	4.2
10)	Plant and equipment targetted for investment	4.5	1.8	1.0	2.4
11	Achieving effectiveness through methods	3.5	2.0	1.8	2.4
12)	Initiatives for improvement emanate from a management elite	3.8	2.1	2.0	2.6
13)	Present oriented, doing what is known now	2.5	2.0	2.0	2.2

Notes : Most unlikely (1) , Unlikely (2), Least likely (3) Likely (4), Most likely (5).
Source: **Author's Survey Findings**

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structure in which strategic decision-making occurs in the head office, while operating decisions are assigned to the divisions. The banks adopting this organisational form combine the best features of centralisation (such as realisation of economics of scale) and decentralisation (such as providing proper incentives for profit maximisation).

However, a reasonable number of small and medium-sized banks adopt the U-form organisational structure characterised by bounded rationality, opportunism and subgoal pursuit.

3) Type I (large) commercial banks adopting the M-organisational structure showed superior cost-efficiency and profitability. However, Type III (small) banks combining significantly both U-and M-forms of organisational structure recorded an operating expenses ratio of 0.86, above the industry average by 0.02. Their return on total assets (ROTA) was 2.18, below the industry average by 0.11. The performance of the small banks was constrained by the problems of bounded rationality, opportunism and subgoal pursuit.

4) The small and medium-sized banks (Type II and III) adapted by rapidly to the challenges of gloablisation by displaying more of the characteristics of an information-age banking organisation. The older Type I banks still manifested the characteristics of an industrial-age organisation on 7 out of the 13 listed organisational adaptation criteria. However, all banks still show clearly differentiated and segmented organisation positions, roles and responsibilities, as opposed to matrix arrangements involving flexible positions, roles and responsibilities characteristic of information-age organisations.

The implications of these findings include the following. First, banks now realise that the unbundling of financial services, emergence of universal banking, and the apparent strategically disadvantaged positions of banks in the value chain, call for organisational redesign in structure, work methods and process reengineering. Only those banks that adapt with least-cost differentiations would survive the turbulent business environment. Second, it must be understood that a fundamental shift away from hierarchical structures implies relinquishing much of the central decision-making process of the organisation. The work of central management becomes one of setting the visions, permeating the organisation with a sense of purpose and a set of values, strategic investments, involvement in staff selection, and the provision of supportive services when requested by the nodes of the organisation.

Organisational Model of Nigerian Banking Firms

In our emerging model depicted as **Figure 1**, the external environment is characterized by the Bank for International Settlement (BIS) regulations, particularly in the areas of capital adequacy, liquidity risk and operational methods and processes, aggressive monetary and fiscal policy reforms, revolutions in information and communication technology (ICT) and changing customer expectations. The internal limitations include high degrees of bounded rationality, opportunism, sub-goal pursuit and slow transition in management and organisational renewal practices. As competitive pressures intensify, banks must rethink their organisational styles, structures and systems if they expect to survive the coming decade. The present directive that the minimum capital of banks be increased from N2billion to N25billion by the end of 2005 encourages the emergence of a new kind oligopolistic market structure, dominated by at least eleven banks, instead of the original three big banks (Union Bank, First Bank and United Bank for Africa).

The gains of decentralised structures and the rapid transition to information and communication technology (ICT) – driven networks in Nigerian small and medium-sized banks are still limited by varying degrees of bounded rationality, opportunism and subgoal pursuit. In some small and medium-sized banks, their ICT capabilities cannot keep pace with increasing volumes and operational capacity. The numerous cases of reported mobility of highly skilled bankers particularly among the new generation banks could be indicative of the fact that self-interest maximisation exceeds their propensity to maximise shareholders' wealth.

It is also likely that the Type I (large) banks could double their cost-efficiency and profitability by exploiting further the gains of decentralisation in strategic decision-making at the divisional level with proper incentives for profit maximisation. A few large banks already depict this tendency.

Although a number of the large (Type I) banks have embarked on re-engineering projects recently, yet their transition from industrial-age banking organisations to information-age banking organisations is still limited by the apparent capacity-technology mismatch.

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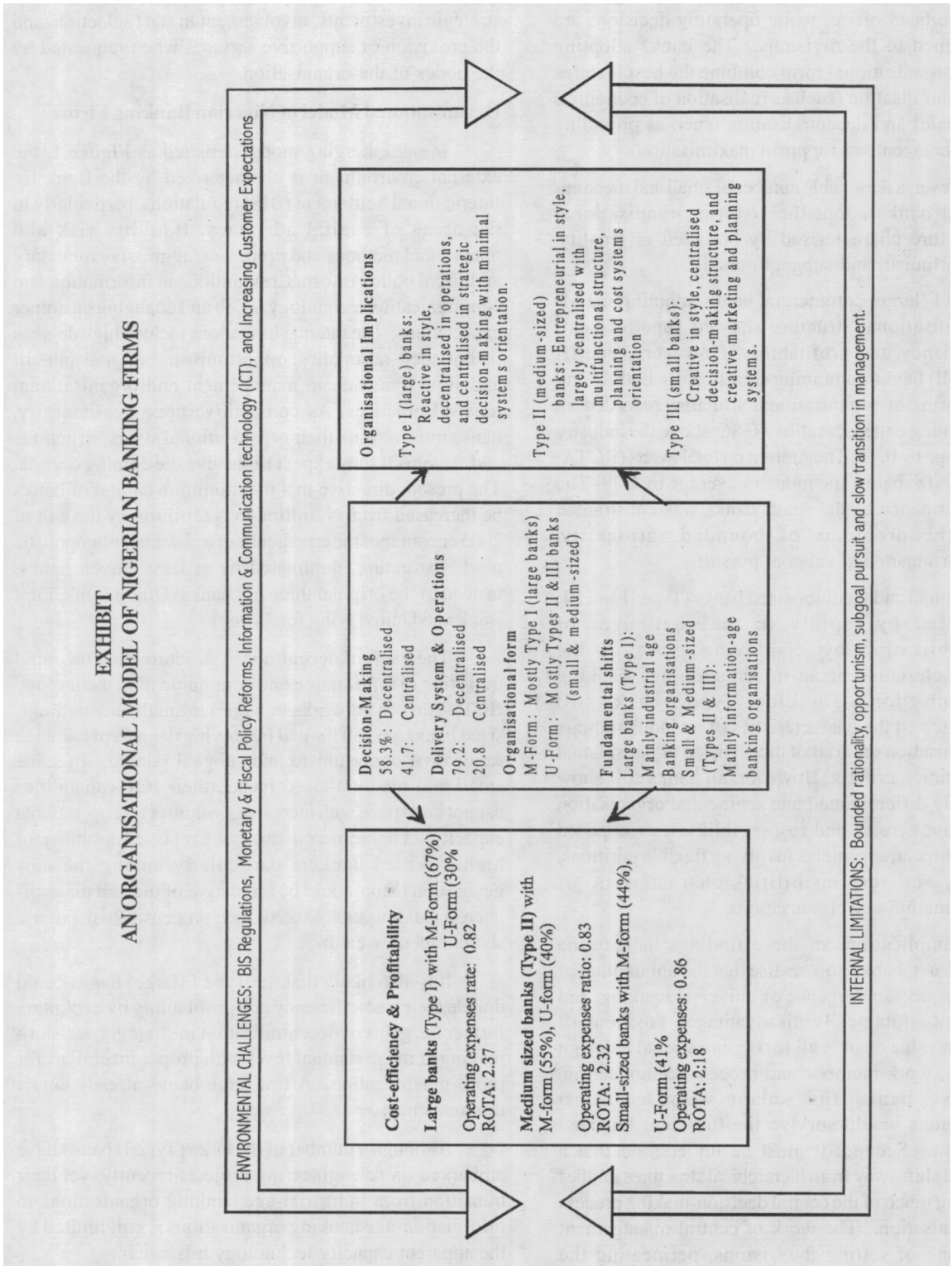
EXHIBIT
AN ORGANISATIONAL MODEL OF NIGERIAN BANKING FIRMS



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Their emphasis on cost control still alienates them from reaping the benefits of strategic entrepreneurial planning and forward control. In order to avoid the problems of "putting new wine in an old wine skin", Nigerian banking organisations must rethink their values and attitudes, the basis of managerial authority, management decision-making and systems orientation towards human resource accounting, capability accounting, capability budgeting and action budgeting.

Research indicates that the organisation of the future must remain adaptive if it is to remain viable (See Goodwin, 1978; Lippitt, 1975; Ansoff, 1973). It will need to remain flexible to cope with the dynamics of the internal and external environments. Nigerian banking organisations are in transition, facing and managing the realities of change, albeit slowly. In this vein, the bank of the future would need to attract renewal facilitators with the core competencies required for the technical job of organisation redesign in a highly regulated industry.

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