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Strategic Management and Social Responsibility Practices of Lending Institutions

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ABSTRACT

This study aimed to determine the strategic management and social responsibility practices of lending institutions in Zamboanga del Norte during the year 2018. The descriptive method of research was used with 372 respondents. Frequency counts, percentages, and Pearson Product Moment Correlation (r) were used. Results revealed that the majority of lending institutions were in operation for three years and below. The lending institutions often did strategic management in terms of strategic analysis, strategic decision-making, strategy formulation, strategy implementation, and strategic control. Economic, legal, ethical and philanthropic responsibilities were often manifested by the lending institutions involved in the study. A significant relationship was noted between strategic management and social responsibility practices. It is recommended that most of the lending industries need to monitor and review the strategic management practiced by their employees. Further, lending institutions are a neophyte in the service and not very familiar with how they play the field of competition; they should assess the competition and potential threats that can affect operation in the market. The top management needs to monitor and review the strategic management practiced by its employees. Further, lending institutions are enjoined to sustain or improve their social responsibility with regards to philanthropic responsibility as this would create a long-lasting impression better image towards their stakeholders.

Keywords — Strategic management, Social responsibility, Decision making, Lending institutions, Philanthropic responsibilities, Mindanao, Philippines

INTRODUCTION

The turn of the 21st century revolutionized the advent of the new economy which is supported by the increasing role of knowledge and communications (technology) in business. This brings about issues and challenges of innovation and technology change. Along with this view, Jofre (2011) asserted that globalization tends to underscore matters such as business ethics, standardization, international markets, and what managers call global scale strategies. By this, strategic management as a field of research and practice moved from specific firm issues towards the broad and complex dynamics of systems beyond the organizational boundaries.

Strategic management is a continuous process of strategy creation, execution, and evaluation of cross-functional decisions to enable the lending organization to achieve its goals and objectives. Strategic management process goes through strategic analysis, strategic decision-making, strategy formulation, strategy implementation, and strategic control. When these specific processes are executed and managed creatively, distinctly and strategically, the organization can ultimately achieve organizational success (Young, 2015).

However, while profitability is the criterion of success of the business (Arthur, Thompson, Strickland, & Janes, 2010) and its first responsibility, it is not its only responsibility, because, the business has a responsibility to pursue policies and make decisions and actions that are desirable in terms of objectives and values. This that benefit society is termed corporate social responsibility. Pachamama (2018) cited the work of Carrol argued that corporate social responsibility encompasses the economic, legal, philanthropic, and ethical expectations that society has of organizations. Social responsibility is built on an ethics system, in which decisions and actions must be ethically validated before proceeding. If the response or resolution causes hardship or gross disadvantage to the community or the society, then, it would be accounted to be socially irresponsible.

On the other hand, corporate social responsibility implies that organizations must behave ethically and be sensitive to social, cultural, economic, and environmental issues. It includes compliance with legal and ethical standards, corporate governance, environmental protection and protection of public health and safety. An ethical business environment creates trust from customers and employees, resulting in higher customer satisfaction, stronger employee commitment, and improved quality, all of which lead to higher profits (Evans & Lindsay, 2014).

According to Medina (2014 lending institutions, like any other business enterprises, are required to conform to regulatory requirements and ethical practices. As such, lending institutions as business enterprises, are expected to be fair and honest, beyond obeying the law, they should not knowingly harm customers, clients and competitors through deception, coercion or misrepresentation, or providing false and misleading information about their products and services. Moreover, van Duuren, Plantinga, and Scholtens (2016) underscore social responsibility as legitimizing the business enterprise's economic performance and also appearing as the absorption of the fundamental principles of business ethics.

By and large, the extent to which the lending institutions practice the aspects of social responsibility is reflective of the value system of the organization. There is an increasing number of people who think that business decision making must not only consider profit maximization (Barclift, 2012), but businesses should also voluntarily contribute to solving social issues as their moral responsibility.

This is most applicable in local situations where the informal business sectors in the places studied has come to rely on lending institutions for steady capitalization of their small enterprise. Also, the unemployed become engaged and productive in many ways from the startup capital sourced out from their loan proceeds. Small-scale farmers too depend on lending institutions for farm maintenance. It has become a trend for the majority of conditional cash transfer beneficiaries enrolling in lending institutions to augment financial aids for their income- generating projects. There are instances when even the regular salary earners seek loans from lending institutions. In dire financial needs, people have come to depend on lending institutions for immediate cash assistance.

The ease for no-hassle loans in which the ordinary man on the street could immediately avail of essentially makes one of the factors which render lending institutions as a thriving industry. Their strategic direction possibly makes them a mainstay in the financial market despite the fierce competition of service providers, both from government financial institutions as well as from non-government sectors.

The reason why, in spite of bankruptcy or fall of large financial institutions is publicly announced, one can see that business operation of local lending institutions continues to flourish and remain stable.

Assumptions why lending institutions remain in the business for academic and scientific purposes. Compelled the researcher to conduct this study. This study will give a new perspective on how lending institutions operate in the 21st century. It aimed to determine which of the lending institutions in the province of Zamboanga del Norte consistently employ the phases of a strategic management process, as well as the extent in which these business organizations practice their social responsibility.

METHODOLOGY

This study employed a descriptive method of research. This study was conducted among the Lending Institution in the entire province of Zamboanga del Norte. There were three groups involved in the study, namely; the owners and/or management and staff of the lending institutions under study, their clients and customers, and the selected local government unit employees and/ or barangay officials/ employees in the Lending Institution's area of business operation. The grouping was made to validate the data generated from the respondents. In totality, there were 372 respondents including the 145 lending institutions operating in the province understudy. Economic development is as apparent in the Province of Zamboanga del Norte as the number of Lending Institutions operating in the province is increasing, serving and catering to the needs of constituents who are financially tight. Being the commercial hubs of Zamboanga del Norte, Liloy, Tampilisan, Sindangan, Maukan, Katipunan, Dipolog City, and Dapitan City are the sites of branch offices of SEC-registered lending institutions in these places. Thus, all the Lending Institutions operating in these municipalities and cities were utilized as participants in this study, except those few who declined. What impact do these lending institutions have to the community where they are operating gave reasons to the conduct of the study?

Necessary official permission was processed. Under the principle of research ethics, consent of the respondents was sought. Likewise, the three groups of participants were informed about the nature of the study, as well as assured of the confidentiality in the treatment of the research data gathered. Upon approval of the personalities mentioned above, fielding of the instrument proceeded subject to the consent of the identified participants. The researcher administered two sets of questionnaires, one set for the owners/managers or top management and employees of the lending institutions currently operating and the other set of questionnaire for the people of the community which included the customers and/or clients of the LI's and the local officials and employees where LI's are operating.

The data gathered from the instrument were analyzed and interpreted with the use of the Frequency Count and Percentage, computations were used to describe the responses of the overall responses of the different respondents in terms of years of operation. A weighted mean and ranking applied on the extent of the practice of strategic management along with strategic analysis, strategic decision-making, strategy formulation, strategy implementation, and strategic control and social responsibility practices along with economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities of lending institutions. Pearson r Product Moment Coefficient of Correlation was employed to find out the relationship between behavioral identity and organizational performance of which is strategic management and social responsibility practices of this study.

RESULTS AND DISCUSSION

Table 1 presents the data on the profile of lending institutions as to some years in operation. The data above shows that there were 72 or 49.66 percent of the lending institutions that were operating for 1 – 3 years; 53 or 36.55 percent were operating for 4 – 6 years; 14 or 9.66 percent have been in operation for 7 – 9 years and only 6 or 4.14 percent have been in operation for more than 10 years. It means that the majority of the lending institutions were new in the lending industry in the entire province of Zamboanga del Norte.

They are the neophytes and those that are yet not very familiar with how the lending institutions play in the field of competition. However, despite the lack of experience in business, they are still expected to perform social responsibility to all their stakeholders.

Table 1. Profile of the Businesses in Terms of Years of Operation

Years of Operation	Frequency	Percent
1 – 3 years	72	49.66
4 – 6 years	53	36.55
7 - 9 years	14	9.66
10 and above	6	4.14
Total	145	100.00

It is evident in the data on the table that the top management of the lending institutions understudies often practiced strategic analysis, strategic decision making, strategy formulation, strategy formulation and strategic control as indicators for strategic management practices.

The data on the table showed values that are within the range 3.41 – 4.20 which are within the qualitative description as "often practiced." This means that the situation cited is practiced four (4) times a week in its business operations of the lending institutions under study.

The overall scenario reveals that top management often manifests strategic analysis. The mean of 4.07 proved that these important analysis indicators used were often practiced by the senior management of the lending institutions under study. They often interview with external stakeholders and gather feedback after the interview to determine product reputation.

Analysis of decision along innovation is the most popular among all decision-making strategies; this implies that the top management is aiming for the change of offerings now and then. The average weighted value of 4.22 proves it.

The data show that the top management often did strategy formulation. This is proven by the average weighted values that fall within the range 3.41 – 4.20, described as often. This means that revisiting vision, mission, and goals and considering the top management is considering its importance in planning. This implementation includes updating the policies and procedures of the organization and seeing to it that these policies and procedures are in line with the current of the organization for operation. Strategy implementation also includes updating financial requirements and other requisites for implementation.

In other words, as strategies are being formulated, the implementation of the strategies is constantly being formulated. Suggestions and improvements are implemented to improve better what has been initially formulated. Young (2015) discussed strategic controls are simultaneously being carried out as a way of determining whether the strategies designed and how they are being implemented are systematically and thoroughly assessed. It may be based on premise control which based on the assumed premise of how things will occur in the future. Another one is implementation control which the will of the management to implement such control while the third one is special alert control which is the place to assess the position of the business in the case of sudden events in the market. Lastly, strategic surveillance controls which are protecting your business from external threats that may hinder the success of the strategy.

Thus, the findings of this study corroborate the main theory of strategic management of Dewey and Mintzberg cited by Young (2015) that strategic management is a continuous process of strategy creation that involves strategic analysis and decision-making, strategy formulation and implementation, and strategy control.

Table 2. Lending Institutions Strategic Management Practices

Strategic Management Practices	AWV	D
Strategic Analysis	4.07	OP
Strategic Decision Making	4.04	OP
Strategy Formulation	4.01	OP
Strategy Implementation	4.04	OP
Strategic Control	4.07	OP

The table shows the test of difference in the corporate social responsibility practices in terms of economic responsibilities, legal responsibilities, ethical responsibilities and philanthropic responsibilities in the lending institutions under study. A closer look at the results on the table would tell that the top management has a high rating over the clients. The ratings of the top management fall on the highest level while those that of the clients were a little bit lower than the top managements' rating on legal responsibilities. In totality, economic responsibilities of the lending got the means of 4.02 and 4.15 were both described as often practiced. This means that economic responsibilities are often done by the lending institutions their social responsibilities to the business, to their employees and the other stakeholders of the lending institution especially the clients. It is important to note that if a business is unable to produce profitable products and maintain sustainability, it is impossible to attend to all other succeeding social responsibilities. Which enables them to perform their social responsibilities Martinuzzi and Krumay (2013) covered economic performance is the base in business, without which business cannot discharge other responsibilities. Lending institutions comply with legal requirements and adhere to all state rules and regulations though it may entail a cost for them as their basic legal responsibility practices. These items obtained the average weighted values that fall within the range 3.41 – 4.20, all are described as often. This means that most of the times, ethical responsibilities are practiced by the employees of the lending institutions included in this study. The overall results show that the lending institutions are expressing their concerned about the community especially those activities that need funds like human-made and natural disasters, civic activities and cause-oriented activities. This implies that philanthropic responsibilities are among the priorities of the lending institutions covered in this study.

Table 3. Lending Institutions' Corporate Social Responsibility Practices

Corporate Social Responsibility Practices	LGU and Clients		Top Management	
	AWV	**D**	**AWV**	**D**
Economic Responsibilities	4.02	O	4.15	OP
Legal Responsibilities	4.10	OP	4.24	AP
Ethical Responsibilities	4.06	OP	4.18	OP
Philanthropic Responsibilities	3.54	OP	3.75	OP

Table 4. Test of Relationship between Strategic Management and Social Responsibility

Variables	Means	SD	r-computed	p-value
Strategic Management	4.04	0.0678	0.636*	0.048
Social Responsibility Practices	4.01	0.0938		

The table reflects the test of the relationship between strategic management and social responsibility. The data on the table shows a computed value of 0.636 with a probability coefficient of 0.048. This means that there is a significant relationship between strategic management and social responsibility practices of the lending institutions. This means that strategic management paved the way towards the performance of the lending institutions on their social responsibility. These lending institutions become more socially responsible because their business operations are well planned to result in a successful business.

According to D'Amato, Henderson, and Florence (2009) states that on the standpoint of business, socially responsible behavior may improve the present value of a firm's future cash flows and, thus, may be consistent with the wealth-maximizing interests of the firm's equity holders.

Accordingly, socially responsible behavior can enable a firm to differentiate its products in its product market enables a firm to avoid costly government-imposed fines, reduce or lessen a firm's exposure to risk. All of these actions can increase the present value of a firm's future cash flows and are therefore consistent with maximizing the wealth of the firm's equity holders.

CONCLUSIONS

Based on the findings of the study, the researcher at this moment concludes that the majority of the lending institutions were in operation for three years and below. The lending institutions were often practiced the strategic management concerning strategic analysis, strategic decision making, strategy formulation, strategy implementation, and strategic control as well as social responsibility. On the other hand, there are items of a strategic analysis which need to improve by the respondents such as reviewing the technology utilization periodically, and strengthening and identifying networks. The issues for strategic decision making in the often practiced found in unifying decision by all internal stakeholders on change dimension. Besides, participates in vision statement formulation with the Board of Directors, formulates succession planning, and generates strategies in dealing with an organization's issues done by collegiality found often practiced in the aspect of strategy formulation.

Further, in the course of daily business operations, the lending institutions observe proper planning for the realization of their respective visions as they survive the stiff competition of the industry. Though they are new in the business, lending institutions are socially responsible for giving back to society the benefits they gained. It cannot be emphasized that their value is determined not only by its bottom line but by its contribution to the community and country that it serves. The management of lending institutions needs to balance a multiplicity of interest, not only for more considerable profit but also take into account the employees, the communities where they are operating, the government and the nation as a whole.

Thus, the findings of this study corroborate the main theory of strategic management of Dewey and Mintzberg cited by Young (2015) that strategic management is a continuous process of strategy creation that involves strategic analysis and decision-making, strategy formulation and implementation, and strategy control. And also the concept of Carroll as cited by Roa (2011) on social responsibility.

TRANSLATIONAL RESEARCH

The findings of the study may be best translated to various media of communication for information dissemination, if not, further awareness campaign or as the basis for policy recommendations to the operations of the lending institutions nationwide.

RECOMMENDATIONS

Based on the findings of the study, the researcher at this moment concludes that the majority of the lending institutions were in operation for three years and below. The lending institutions were often practiced the strategic management concerning strategic analysis, strategic decision making, strategy formulation, strategy implementation and strategic control as well as social responsibility. On the other hand, there are items of a strategic analysis which need to improve by the respondents such as reviewing the technology utilization periodically, and strengthening and identifying networks. The issues for strategic decision making in the often practiced found in unifying decision by all internal stakeholders on change dimension. Besides, participates in vision statement formulation with the Board of Directors, formulates succession planning, and generates strategies in dealing with an organization's issues done by collegiality found often practiced in the aspect of strategy formulation.

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Based on the study the recommendations were drawn. Since most of the lending industries are a neophyte in the service and not very familiar on how they play in the field of competition, they should assess the competition and potential threats that can affect its operation in the market.

The top management of lending institutions needs to monitor and review the strategic management practiced by their employees because what is done in the planning phase might differ in the implementation phase.

Lending institutions are enjoined to sustain or improve their social responsibility with regards to philanthropic responsibility as this would create a long-lasting impression on their stakeholders, and it would create them a better image. Information dissemination regarding the importance of strategic management and social responsibility practices is very vital to the operations and success of the lending institutions.

The future researcher may study the relationship of each indicator of strategic management to social entrepreneurship. This study provides investors or owners of the lending institution the knowledge of the management strategy processes proven to be effective. Practices of the lending institutions under study would be revealed and may become a model for other lending institutions. The external stakeholders or the community people would be more aware of the social responsibility of lending and other business organizations in the community, the government, and the nation. They would be able to understand different social responsibilities alongside with the optimum objectives of business which is to earn a profit.

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