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Empirical Analysis of the Essential Drivers that Influence the Factors for Measuring the Performance of International Financial Institutions

Joseph Agholor
(London Metropolitan University Business School, London, EC 2M 6SQ, UK)

Abstract: There are varieties of drivers that influence the techniques for measuring the performance of International Financial Institutions. Significant of these drivers include, Strategic Policies, the Quality of the Products and Services, the Relationships of the Financial Institutions with their main Stakeholders, the Organizational Structures and Managerial Dimensions as well as Technological Systems. Within the remit of this article, the paper will further discuss the significance of the banks' global expansion, efficiency and stability. Arguably, it is generally regarded that the four drivers are the focus of progress of the International Financial Institutions, for example, by maintaining cordial relationship with the main stakeholders (shareholders, customers and bondholders), the Boards of Directors of the global banks will be seen to be engineering and contributing to the effectiveness of their institutions' policies and programmes. Also, the employees will regard themselves as significant and useful entities within the Corporate Body of the Financial Institutions. Furthermore, both the Directors and the Employees will maintain constant commitments to their Institutions' objectives, policies and goals, thus enhancing more effectively, the corporate goals and the overall performance targets of their Global Financial Institutions. It can also be said that Management will present themselves as sources of competitive advantage, generating multiple outcomes among their divisional, departmental and international levels of operations, thus offering such challenges that will foster the global economic and financial goals of the international financial institutions.

Key words: empirical analysis; international financial institutions; drivers; performance
JEL codes: F33

1. Introduction

It is generally recognized that international financial intermediation, consists mainly of large commercial banks, multilateral development banks and insurance companies. As this paper focuses on the essential drivers influencing the factors for measuring the performance of global financial institutions, it is contended that a number of regulatory instruments, including International Administrative Law, Basel Committee on Banking Supervision (1975), International Organization of Securities Commission (1990), International Association of Insurance Supervisors (1994), International Accounting Standards Committee (1973), International Accounting

Joseph Agholor, Professor of International Finance And Financial Institutions, London Metropolitan University Business School; research areas/interests: (a) The concepts and roles of international finance within structural adjustments programmes; (b) Operational mechanisms and characteristics of multilateral financial institutions and their contributions to the world economies; (c) Global corporate governance within the context of international business operations. E-mails: j.agholor@londonmet.ac.uk.

Standards Board (2001) and Financial Stability Forum (1999) have strengthened the pinnacles that enhanced the effectiveness of the Regulations. Additionally, the international financial institutions further comply with the National, Regional and Inter-Regional Regulations on Banking Standards and their operations in countries in which they operate (Bruno, 1991).

Giving that the primary goals of the International financial Institutions are the sound maintenance of their capital, the growth and efficiency of their liquidity, they have also important obligations to enhance their shareholders' value. Within this vein, the global financial institutions additionally play a significant part within the financial intermediation by fostering the World's Economic Growth through the enhancement of global issues such as poverty alleviation and improvements of rural living standards. In exercising these roles, the Global Banks usher in sustainable economic growth, development and survival within the global economies. Figure 1 shows the detailed and core activities of the International financial institutions.

Financial Services
Card Member Services
Regional Banking, home banking, diversified customer services, sale of financial products, life policies, mortgages, pensions and development financing of national programmes and projects jointly with national governments

Private Banking
Provides personal investment counseling and professional advice to small and medium sized-customers and private equity.

Asset Management
Focusing on corporate institutions, mutual funds and private client investors. Providing investment products and offering portfolio management. Advice on core market securities, institutional trust services and treasury services.

Investment Banking
Strategic Advisory Services, including Mergers and Acquisitions, Equity and Bond Underwriting, Loan Syndication, Corporate Lending, Proprietary Investment and Merchant Banking, International Trade, Venture Capital, Brokerage Services for other Financial Institutions and Online Brokerage Services.

Figure 1 Core Activities of the Global Financial Institutions

The diversity of activities of the international financial institutions and the skills required to manage them have been influenced by the size of the institutions, their capital and assets volumes, the competence of their Management, the growing and rapid development of innovations of their services and the sophistication of their technological systems. The combinations of these attributes of the international financial institutions have provided them greater scope for growth, efficiency of operations and increased profitability. With the continuing growth and expansion of the global banks as a result of the efficiency and reliability of their products and services, customer loyalty, coupled with their activities spreading across national and international frontiers, the global financial institutions are becoming more competitive among their international competing business organizations (Swamy, 1988; Blanden, 1986).

The essential drivers influencing the factors used in evaluating the performances of the international financial institutions are mainly Strategic Policies, the Quality of the Banks' Products and Services, Organizational Structures and Managerial Dimensions, Relationships with the Stakeholders and Technological Systems.

2. Strategic Policies

Given that essentially important policies of international financial institutions are formulated by Boards of Directors with Management implementing them it is considered that somehow, among them embody Strategic Policies. Several of these policies include the achievement of highly successful and efficient standards of performance therefore, the Directors would be under the spotlight to demonstrate a challenging pattern in their strategic approach by showing a greater flexibility in their consideration and approval of the policies. As several of the strategic policies might involve commitment of substantial capital the Boards of Directors have to prove clearly and decisively that the financial resources of the global financial institutions are sound, and will prudently be utilized to the benefit of the institutions and ability to offer reasonable return to the shareholders (Berger & Humphery, 1991; Boyd, 1991). Despite the influence of the strategic policies within the global funding of national and international projects, there are similarities within the parameter of metrics requiring the Boards of Directors and Senior Management to maintain accountability, excellence and probity.

In implementing the strategic policies especially those relating to huge capital commitments by the global financial institutions it is considered that the Management should evaluate the continuous ease of monitoring the implementation of the projects to ensure that risk management and the benefits of the projects are guaranteed. World Bank Report (2013), concludes:

> As part of the Bank's overall lending strategy, the Bank may invest in large capital obligations issued and conditionally and unconditionally guaranteed by governments of countries with a minimum credit rating of AA. For obligations denominated in the home country of the issuer, no credit rating is required. However, the Bank may also invest in the obligations issued by a country or instrumentality of a government of a country, multilateral institutions or any other official entity with a minimum credit rating of AA. Whereas for applicants of a country with assets-backed securities, the Bank may only invest in them, so long as they have attained AAA credit rating.

Within the lending guidelines of the World Bank, it is considered that governments' owned projects have less stringent restrictions on financing by the multilateral development financial institutions. However, other private projects located in the developing member countries are required to possess assets-backed securities in addition to their high credit rating in order to be able to attract lending. This argument is justified as it will minimize the risks that the lending global financial institutions might be exposed. With the soundness of capital and liquidity of assets and other resources, it is contended that the possession of AAA Credit Rating by several global financial institutions indicates that they have an exceptional financial security. As a result of the soundness of the banks' capital, their strength and volume of assets and consistently healthy profit growth, they can undertake greater and complex projects. Yasutomo (1995a) argues that highly credit rated financial institutions tend to raise large capital for complex and viable developmental projects and programmes from international capital markets across the industrialized economies in order to avoid information leakage (Nakamura, 1993).

It is further argued that global financial institutions with efficient strategic policies especially those relating to capital resources and better management are more suitable to provide effective and specialized services, develop and expand existing programmes and carry out regular innovation with efficient technological systems. Within this vein, it is contended that strategic policies provide a useful metric for efficient and coherent measurement of the performances of global financial institutions.

3. The Quality of Products and Services

The quality of the products and services that international financial institutions provide to their customers is an important factor in assessing their operational and financial performance (Parkan, 1997, Cole, 1998; De Young, 1997). Significantly, empirical evidence accumulated from several volumes of literature reveal that high quality products and services provided to customers often make greater changes in the improvement of the shareholders' value (Nayyar, 1995; Ittner & Larcker, 1996).

Fornell et al. (1996) further explain that:

> Customers' satisfaction of products and services provides an important measure of the financial institutions' past and current performance, as well as future financial wealth. Customers' satisfaction also provides a means of measuring one of the firms' most fundamental revenue generating assets, as it increases loyalty, reduces price elasticity, insulates current market share from competitors, lowers transaction costs and the cost of attracting new customers. Customers satisfaction also helps to build the reputation of large financial institutions in the capital markets.

Irrespective of the structures of the financial institutions, customers' satisfaction is a paramount metric that provides an important tool through which the strategic and operational policies and goals of the institutions are evaluated. Therefore, any global financial institution jeopardizes its future performance by displeasing its customers.

4. Banks' Relationships with Major Stakeholders

Similar to other global organizations, the international financial institutions aim at building good relationships with their stakeholders, especially the large equity holders. The maintenance of good relationship with them enhances the growth, effectiveness and increases in the turnover of the institutions. It also promotes effective flow of communications among the competing parties, thereby bridging the gap of isolation among the global banks and their stakeholders. With effective relationships existing among the global financial institutions and their major stakeholders, their relationships will go beyond the execution of the banks' provisions of simple, anonymous, financial transactions to the offering of immense financial and strategic supports that the banks need to enhance their effectiveness, profitability, reputation and consistent growth.

Admittedly, several international financial institutions often provide financing to a number of government programmes and services that will foster the national economic growth, enhance poverty alleviation, promote education, health and environmental control. By financing the projects, the global financial institutions gain substantial knowledge of current government policies, laws, taxation, customs, regulations, market dynamics in countries in which the programmes and projects are located (Fama, 1985; James, 1987; Berlin, 1996). Teich (1997a) goes further to state that:

> The marketing philosophy of the stakeholders' long-term relationships with their global financial institutions permeate all of the functions of the financial institutions thus enabling them to be more efficient. The relationship building with their stakeholders is a specific process that the financial institutions must endeavour to firmly establish and sustain.

Arguably, good relationship among the global financial institutions and their stakeholders creates effective image among them. The relationship also encourages the stakeholders to support the Boards of Directors major policy decisions.

5. Organizational Structure and Managerial Dimension

Human resources are among the most significant drivers that influence essential metrics used in measuring the performance of the international financial institutions. Within the factorial concept of human resources management are the organizational systems consisting mainly of the selection and appointment procedures, managerial roles and functions, job specifications of employees, remunerations and training and development

(Ichniowski et al., 1994; Capon. et al., 1994a; and Delery & Doty, 1996; MacDuffie, 1995). In ensuring the effectiveness of the linked components embodied in the human resources concept, the Boards of Directors as the “Architecture” of the Financial Institutions have to ensure that the frameworks of their policy decisions on strategic policies including the managerial structures and employees relationships with Senior Management are conducive to better working environment. Within this framework of human resources management, employees will be able to develop appropriate initiative and adaptability to changes in managerial science. Through this process a logically designed flow of operational activities and a flexible organizational structure of the financial institutions will be tightly inter-linked with effective and coherent managerial systems and functional relationship with employees.

6. Technological Change

The global financial institutions are among the largest users of information technology. The evolution of information technology in corporate banking system has been immensely profound partly, as several banking clients have become financially sophisticated with banking operations. The developments and applications of the continuing technological systems within the financial operations of the global banks, have also enabled the international financial institutions to continue to play a pivotal role in enhancing the economic growth through the maintenance of sound financial stability and expanding revolutionary change in the financial markets.

Contextually, technological systems, their developments and applications have permitted rapid changes in the structures of securities trading markets. The changes provided opportunities for a re-evaluation of regulatory systems that affect the banking operations in a number of processes. Firstly, there are divergent market structures which can be competing for various services that exist within different regulatory regimes. Therefore, proper allocations of regulatory costs have to be weighed. Secondly, with the significance of the open access to money and capital markets to several investors that technology permits, regulators need to examine the level of oversight if any, to ensure the protection of the investors.

Summing up the relevance of technological system as an important metric in evaluating the measurable factors influencing the performance of international financial institutions, it is argued that technology facilitates increased transparency. In the same vein, transparency promotes investors protection and encourages market liquidity. It also fosters the efficiency of securities markets by facilitating price discovery and open competition, thus reducing the effects of fragmentation. Within this arena information technology enhances the efficiency of the market’s price discovery and contributes to the efficient allocation of scarce capital among competing demands for the capital.

7. Conclusion

Having regards to the critical impacts that the various drivers have on the factors influencing the techniques for measuring the performance of international financial institutions, it is considered that there is no one driver most appropriate or adequate for evaluating the performance of global financial institutions. The increase in the variety of techniques influencing the tools for measuring the performance of the global financial institutions are diverse and complex. Nevertheless, the effectiveness of the strategic goals and policies, technology and its development, the importance of efficient and high quality products and services, commitment to reliability and trustworthiness of the major stakeholders of the institutions and Directors and the role of Senior Management in relation to the organizational regimes and structures have continued to play vital mechanisms by serving in evaluating the performance of the global financial institutions.

It should be noted that the metrics influencing the techniques for evaluating the performance of the international financial institutions cannot only be influenced by the drivers that have been covered in the paper, therefore, they should be combined with other effective techniques.

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