

The impact of strategic orientation on the financial performance of banks: Evidence from Malaysian banks during the period 2006–2023

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Received: 16/07/2025

Accepted: 02/01/2026

Published: 20/01/2026

Abstract:

This study explores the relationship between the dimensions of strategic orientation—vision, mission, and objectives—and the financial performance of Malaysian commercial banks from 2006 to 2023. It fills a gap in the literature by assessing the individual impact of each component in a rapidly evolving banking sector. A quantitative approach was used, applying panel data regression and content analysis of annual reports. The random effects model was selected. The sample includes 8 banks with 144 observations. Financial performance was measured using ROE and ROA, while strategic orientation was rated on a 1–5 scale based on the analysis of official statements about vision, mission, and objectives. Results show that strategic objectives have the strongest and most consistent positive impact. Vision was only marginally related to ROA, and mission had no significant effect. The study recommends adopting SMART objectives and developing evaluation tools to enhance strategic clarity and support sustainable financial performance.

Keywords: strategic orientation, financial performance of banks, Malaysia.

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مجلة الدراسات التجارية والاقتصادية المعاصرة المجلد (09) العدد (01) (2026)



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Introduction

Banks serve as pivotal institutions within the global economy, functioning as critical intermediaries that facilitate savings mobilization, credit provision, and efficient payment systems (Bhowmik, Baser, & Saha, 2025). In today's volatile economic environment—characterized by technological disruption, regulatory volatility, and global crises—banks must leverage strategic planning to sustain financial resilience and competitiveness. Strategic orientation, typically defined through vision, mission, and objectives, acts as a foundational organizational pillar. It shapes long-term direction and ensures coherent alignment between institutional aspirations and operational practices. In the Malaysian context, this linkage between strategy and performance is increasingly significant. For example, analysis following Malaysia's 2011–2020 Financial Sector Blueprint revealed that leading banks such as Public Bank, CIMB, and Maybank achieved improved Return on Assets (ROA) partly attributable to enhanced strategic alignment and cost controls.

While the positive relationship between overall strategic orientation and firm performance has been well documented—especially within Southeast Asian banking systems—less is known about the unique contributions of each element (vision vs. mission vs. objectives). Research targeting Malaysian non-financial firms (Green & Medlin, 2003) indicates mixed results: mission statement quality correlates significantly with Return on Equity (ROE), yet often shows weak or inconsistent effects on ROA (Amran, 2012). Moreover, development financial institutions in Malaysia—such as Bank Negara-linked entities—emphasize the importance of embedding broader socio-economic goals, highlighting the varied nature and complexity of strategic statements (Shamsudin, Kassim, & Ismail, 2018). Globally, literature also highlights that while mission statements often associate positively with firm innovation and financial outcomes, their standalone effect is modest (Cortes, Chowdhury, & Hasan, 2021).

Additionally, banks in other emerging markets—like Kenya and Pakistan—demonstrate that composite strategic orientation (e.g., incorporating market, entrepreneurial, or learning orientation) supports performance; yet, these studies do not parse the individual impacts of vision, mission, and objectives in the banking sector (Hamisi & Ibrahim, 2023). Moreover, the evolving digital financial landscape—particularly in China—underscores the importance of aligning strategic orientation with technological and market dynamics. Still, the separate contribution of vision, mission, and objectives to bank performance remains largely unexplored (Xie & Wang, 2023).

This study addresses the existing gap by empirically investigating how each strategic orientation dimension—vision, mission, and objectives—distinctly affects financial performance metrics (ROA and ROE) in Malaysian commercial banks during 2006–2023. Utilizing panel regression modeling with rigorous quantitative content analysis of annual reports, this research provides a nuanced understanding of how clarity in strategic articulation correlates with financial outcomes. The findings aim to enhance both scholarly discussion and practical managerial application, equipping bank executives with clearer insights into which strategic elements are most instrumental in driving measurable financial success.

Accordingly, this study seeks to answer the following research question:

To what extent do vision, mission, and strategic objectives influence the financial performance of Malaysian banks during the period 2006–2023?

1. Literature Review

Numerous studies have examined the relationship between an organization's strategic orientation and its level of financial performance. The literature indicates that having a clear strategic orientation is one of the key factors in achieving financial excellence and competitive advantage. In this context, Pearce & David (1987) emphasized that clarity of vision and mission helps direct resources toward financial goals and enhances decision-making efficiency, which positively affects financial performance indicators. Similarly, Bart, Bontis, & Taggar (2001) found that organizations that effectively formulate their vision and mission achieve higher financial performance than those lacking such orientation, highlighting the importance of strategic orientation as a managerial tool influencing financial outcomes. In a related study, Ibarra-Cisneros & Demuner-Flores (2021) demonstrated a positive relationship between strategic orientations—entrepreneurial, market, and technological—and organizational performance.

The study also underscored the role of “absorptive capacity” in enhancing the effect of entrepreneurial orientation, pointing to the importance of cognitive capabilities in supporting financial performance, even though vision and mission were not explicitly addressed. Moreover, Mukiibi & Magunda (2019) confirmed that systematic strategic planning contributes to improved organizational performance. Their findings revealed a positive relationship between strategic planning and performance, with external environmental factors having a significant influence on this relationship. This underscores the importance of adapting to the surrounding environment in boosting financial performance. In the context of generalizing findings on a broader scale, the study by Pehrsson (2016) based on a global literature review confirmed that the relationship between entrepreneurial/market orientation and performance is highly dependent on the local market context. The study recommended aligning strategic orientations with market characteristics to achieve better performance.

On another front, Acar & Özşahin (2017) found that market and technological orientation foster organizational innovation, which in turn positively affects financial performance, with innovation playing a mediating role in this relationship. Similarly, the study by Han, Liu, Wang, & Yin (2022), conducted in the Chinese construction sector, demonstrated that business model innovation mediates the relationship between strategic orientation (entrepreneurial and market) and organizational performance. The results also showed that environmental dynamism enhances the impact of innovation on performance. Some studies have highlighted the importance of analyzing each component of strategic orientation separately to understand its specific impact on financial performance. For instance, the study by Bart, Bontis, & Taggar (2001) showed that having a clear mission that links the organization's goals with its core values contributes to improved financial performance by motivating employees and aligning them toward institutional objectives.

In the financial and banking context, several researchers have focused on the role of strategic orientation in improving bank performance, particularly amid regulatory and economic changes in Southeast Asia. The study by Ismail, Rose, Uli, & Abdullah (2012) indicated that banks operating in Southeast Asian countries that adopt clear and sustainable corporate strategies tend to achieve higher financial performance, demonstrating the effectiveness of strategic orientation in rapidly changing competitive environments. Similarly, the study by Jan, Marimuthu, Isa, & Albinsson (2018) proposed a conceptual framework for measuring sustainability practices in Malaysian Islamic banks, based on Islamic Sharia principles. The study highlighted a theoretical positive relationship between sustainability practices and financial performance, reinforcing the importance of integrating social and environmental dimensions into the strategic orientation of Islamic banks.

Furthermore, Sulub & Mohd (2019) found that conventional banks in Malaysia outperformed their Islamic counterparts financially, with conventional banks recording an average return on equity (ROE) of 14% compared to 6% for Islamic banks. The study pointed out that Islamic banks tend to carry higher debt ratios, which may increase the risk of default—underscoring the need to enhance operational efficiency and strategic planning in Islamic banking.

Previous literature indicates a positive relationship between strategic orientation and financial performance. However, there is a noticeable lack of studies that examine each component of strategic orientation—namely vision, mission, and objectives—individually. Additionally, there is a scarcity of integrative frameworks linking these components to financial indicators such as ROA and ROE. Most studies have either focused on general or non-financial contexts, limited their scope to a single type of bank, or emphasized modern strategic trends related to digitalization and sustainability without delving into the traditional elements of strategic orientation. This highlights the need for an in-depth study in the Malaysian banking sector that integrates all these dimensions into a comprehensive analytical quantitative model. Accordingly, this study seeks to fill this gap by analyzing the specific impact of each strategic orientation component on banks' financial performance, thereby offering a practical and measurable model applicable to real banking environments.

Research Hypotheses

the following hypotheses are proposed to examine the relationship between the components of strategic orientation and financial performance:

Main Hypothesis: Strategic orientation (vision, mission, and objectives) has a statistically significant impact on the financial performance of Malaysian banks.

Sub-Hypotheses:

- H1: Vision has a positive effect on the financial performance of banks.
- H2: Mission has a positive effect on the financial performance of banks.
- H3: Objectives have a direct and positive effect on the financial performance of banks.

2. The theoretical framework of the study

2.1. Strategic orientation

Strategic orientation refers to an organization's ability to direct its resources and operations toward achieving long-term goals through the formulation and implementation of its vision, mission, and strategic objectives. It serves as a guiding framework that helps organizations define strategic directions that steer their activities toward optimal performance (Ndubuisi-Okolo, Anekwe, & Nosike, 2020). Recent studies in the Malaysian banking sector have shown that an effective strategic orientation directly contributes to improved financial performance and enhanced investment decision-making, particularly amid rapid digital transformation (Rahmalia, Azman, & Bajuri, 2024). The institutional vision is considered a key tool for unifying efforts and guiding employees toward a specific future goal, as it defines the organization's future direction and forms the foundation for setting strategic objectives (Bora, Borah, & Chungyalpa, 2017).

In the financial context, a recent study found that banks with clear and well-defined visions regarding digital transformation and regional expansion achieve higher financial performance than their counterparts (Roziana & Fazli, 2024). The mission, on the other hand, expresses the organization's core purpose, defines its target audience and approach, and serves as a fundamental basis for strategic planning by guiding resource allocation and reinforcing accountability (Özdem, 2011).

An applied study on Malaysian banks showed that a clear mission enhances coordination between departments within the bank, thereby improving operational efficiency and raising financial performance indicators such as Return on Assets (ROA) and Return on Equity (ROE) (Isa, Rahaman, Romli, & Romli, 2023). Strategic objectives represent measurable outcomes that organizations aim to achieve within a defined timeframe. They are used as tools for tracking progress and realizing the vision, and are directly linked to the mission (Roblek & Meško, 2019). An analytical study confirmed that Malaysian banks that set clear and measurable objectives exhibit higher levels of profitability efficiency, as demonstrated through the application of Data Envelopment Analysis (DEA) (Arif, Nasir, Rodrigo, Bujang, & Supar, 2023).

2.2. Financial performance

Financial performance is defined as the achievement of an institution's financial goals within a specific period, which includes the collection and allocation of financial resources. It is measured by indicators such as capital adequacy, liquidity, solvency, efficiency, financial leverage, and profitability (Fatyhedin, Jusni, & Mouchlas, 2018). Additionally, financial performance is considered the ability of the institution to generate returns that exceed the cost of capital, reflecting its operational efficiency and value creation (Ichsani, Pratiwi, & Saputera, 2024). Among the key indicators used to evaluate financial performance in banks are Return on Assets (ROA) and Return on Equity (ROE). ROA measures how efficiently assets are used to generate profits, while ROE reflects the ability to achieve returns on shareholders' investments. A study conducted on a sample of Islamic banks in Southeast Asia confirmed that the implementation of effective governance elements and strategic planning positively impacts both indicators (Mukhibad, Setiawan, Aryani, & Falikhathun, 2024).

Theoretically, the relationship between strategic orientation and financial performance can be explained through the Resource-Based View (RBV), which asserts that an organization's possession of intangible strategic resources—such as vision, mission, and objectives—provides it with a sustainable competitive advantage that leads to improved financial performance (Ul Rehman, Saltik, Degirmen, Ocak, & Shabbir, 2023). Furthermore, an institution's orientation toward enhancing transparency and governance through the formulation of a clear strategic direction helps reduce the agency gap between management and shareholders, in line with the principles of Agency Theory, which has positively impacted the profitability of Malaysian banks (Isa, Rahaman, Romli, & Romli, 2023).

Accordingly, it is assumed that strategic orientation, with its three components (vision, mission, and objectives), has a direct and positive impact on the financial performance of banks, as supported by both empirical and theoretical evidence from recent studies in the Malaysian and broader Asian financial context (Rahmalia, Azman, & Bajuri, 2024); (Roziana & Fazli, 2024). Building on the preceding discussion of the concept of strategic orientation, its core components, and its relationship with financial performance indicators, it becomes essential to refer to the literature and prior studies that have explored this relationship from multiple perspectives. Empirical research serves as a fundamental pillar for understanding how the theoretical framework is translated into practical application, particularly in the banking sector, which is characterized by its unique regulatory and financial environment. Accordingly, the following section presents key findings from previous studies, whether regarding the general relationship between strategic orientation and financial performance, or the specific impact of each element—vision, mission, and strategic objectives—individually, with special attention given to studies conducted in Malaysia and Southeast Asian countries.

3. The experimental framework for the study

3.1. Methodology and data

This study adopts a quantitative analytical approach to examine the impact of strategic orientation through its three dimensions (vision, mission, and objectives) on the financial performance of commercial banks operating in Malaysia during the period 2006–2023. To achieve this objective, panel data regression techniques were employed in order to account for both cross-sectional and time-series variations in the data.

The choice of the appropriate panel estimation method was guided by standard diagnostic tests. Specifically, the Fixed Effects Redundancy test and the Hausman specification test were applied to determine the most suitable model. Based on the results of these tests, the random effects model was selected, as it provides efficient estimates while accounting for unobserved heterogeneity across banks that is assumed to be uncorrelated with the explanatory variables.

The empirical analysis was conducted using EViews version 12. Prior to estimation, the Jarque–Bera test was applied to assess the normality of the regression residuals, thereby ensuring compliance with one of the key assumptions of classical linear regression. Subsequently, linear regression models were estimated within the random effects framework to test the study's hypotheses regarding the relationship between strategic orientation dimensions and financial performance indicators.

The study sample consists of commercial banks operating in Malaysia during the study period. Banks that did not consistently disclose the required financial or strategic information were excluded from the analysis. Consequently, the final sample comprises 9 commercial banks observed over an 18-year period (2006–2023), resulting in a balanced panel of 144 observations. The selection of banks was based on the availability and consistency of both financial data extracted from audited annual financial statements and non-financial data related to strategic orientation, obtained from official annual reports and strategic disclosures published on the banks' official websites.

3.2. Measurement of variables

To measure banks' financial performance, this study relied on two widely used profitability indicators: return on equity (ROE) and return on assets (ROA). ROE was calculated as the ratio of net income to shareholders' equity, while ROA was computed as the ratio of net income to total assets, based on audited financial statements. These indicators are extensively employed in banking research as they reflect both shareholder profitability and the efficiency of asset utilization, allowing for meaningful comparisons across banks and over time (Athanasoglou & al, 2008).

The independent variable, strategic orientation, was operationalized through its three core dimensions: vision, mission, and objectives. These dimensions were assessed through a systematic analysis of official documents published by Malaysian banks, including annual reports, strategic plans, and publicly disclosed strategic statements. To ensure consistency and reduce discretionary judgment, the evaluation process was guided by a predefined and standardized checklist derived from the relevant strategic management and banking literature. Each dimension was scored using a 1–5 rating scale, where higher values indicate greater clarity, coherence, and strategic alignment.

Table (1): Units of Measurement for Study Variables

Variables	Definition	Measurement
Dependent Variables		
ROE	Return on equity:	Is the ratio of net income divided by shareholder's equity
ROA	Return on asset:	Is the ratio of net income divided by total assets.
Independent Variables		
Vision	Is a statement that expresses the organization's optimal goal and ideal future state.	The vision was evaluated based on the clarity of its future aspirations and its long-term strategic direction.
Mission	statement defines the business of the company, its objectives, and the approach to reach those objectives.	The mission was evaluated in terms of its inclusiveness of all relevant stakeholders (customers, employees, shareholders) and its level of clarity.
Objectives	are specific results that an organization seeks to achieve in pursuing its basic mission.	The objectives were evaluated according to the SMART principle, considering whether they were specific, measurable, achievable, time-bound, and directly related to the bank's core activities.

Source: Prepared by the researchers

Table 1 shows the summary of the measurements and methods used in this study. The measurement of financial performance was based on published and audited financial statements. Net income was obtained from the income statement, which reports revenues, expenses, and profitability over a specific period, while shareholders' equity and total assets were extracted from the balance sheet. The integration of these two financial statements provides reliable indicators of a bank's ability to generate returns for shareholders and efficiently utilize its asset base (Stake Smartly, 2024).

Strategic orientation was measured by applying quantitative content analysis to the collected strategic documents. The texts were coded using the predefined checklist, and scores ranging from 1 to 5 were assigned to each dimension (vision, mission, and objectives) for every bank-year observation. The final score for each dimension represents the average evaluation across the relevant criteria, yielding a unified annual measure for each bank.

To further support the objectivity of the scoring process, a keyword-based textual analysis was conducted. This involved identifying and quantifying the frequency of strategic terms and phrases commonly associated with strategic orientation, such as *market leadership*, *innovation*, *sustainability*, *excellence*, *social responsibility*, *value creation*, *customers*, *employees*, *shareholders*, and *financial results*. The alignment between keyword frequency and the predefined evaluation criteria was used as a complementary tool to validate the assigned scores and reduce subjective interpretation.

This approach known as quantitative content analysis enables the systematic transformation of qualitative textual information into measurable and comparable numerical data through the use of explicit coding rules and standardized criteria. It has been widely applied in prior empirical research to assess strategic disclosures and their relationship with organizational outcomes. For instance, Hossain and Hammami (2009) employed this method to evaluate voluntary disclosure levels in banks' annual reports, while Bartkus, Glassman, and McAfee (2006) used quantitative content analysis to examine the quality of vision and mission statements and their association with financial performance. Accordingly, the methodology adopted in this study is consistent with established practices in strategic management and banking research.

3.3. Normality test

This section presents the normality test of the regression model residuals using the Jarque-Bera test, with the aim of verifying whether the models meet one of the fundamental assumptions of the classical linear regression framework. The test was applied to Model 1, related to Return on Assets (ROA), and Model 2, related to Return on Equity (ROE). The results shown in Figures (1) and (2) indicate that the residuals in both models follow a normal distribution at the 5% significance level, thereby supporting the validity of using the Ordinary Least Squares (OLS) method for estimation and statistical inference.

Figure (1): Histogram and Jarque-Bera Normality Test for the Residuals of Model 1 (ROE)

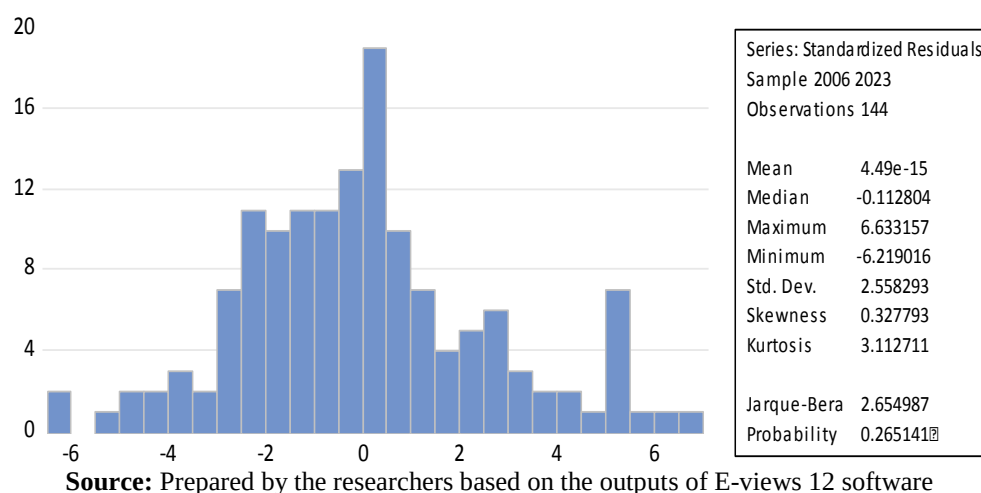


Figure 1 presents the results of the Jarque-Bera test, indicating that the residuals from the estimated model are normally distributed at the 5% significance level ($p = 0.2651$). This finding satisfies a key assumption of the classical linear regression model, thereby supporting the reliability of the estimated coefficients and subsequent inferential analysis. Consequently, the use of the ordinary least squares (OLS) estimator remains valid and robust for this model.

Figure (2): Histogram and Jarque-Bera Normality Test for the Residuals of Model 2 (ROA)

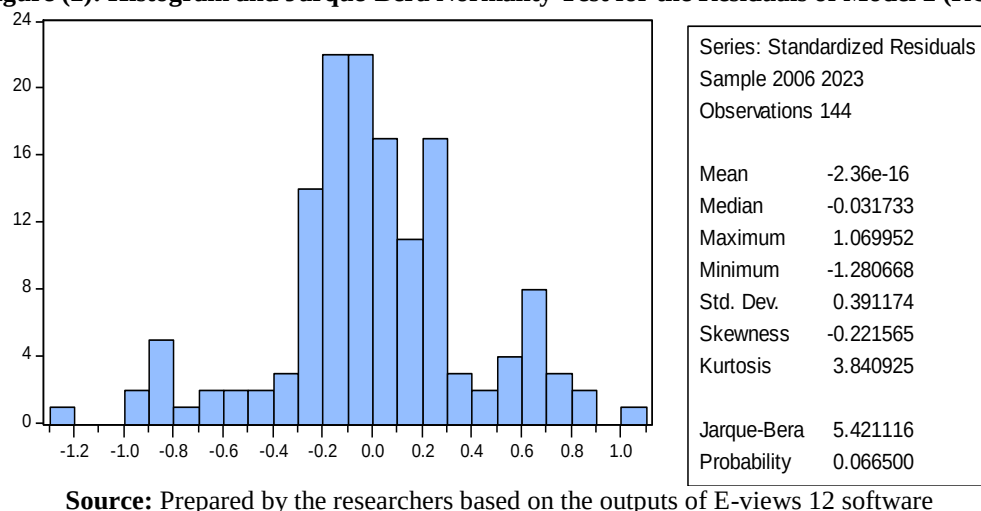


Figure 2 presents the results of the Jarque-Bera test indicates that the residuals from the estimated regression model are normally distributed at the 5% significance level ($p = 0.0665$). This satisfies one of the key classical linear regression assumptions, supporting the

validity of the estimated coefficients and subsequent inferential statistics. As such, the use of ordinary least squares (OLS) estimators remains appropriate and reliable for this model.

3.4. Descriptive analysis

Table 2 presents the descriptive findings, highlighting the central tendency and dispersion of the indicators.

Table (2): Descriptive Statistics

variables	Mean	Median	Max	Min	Standard deviation	Jaque-Bera
Bank financial performance ratios						
ROE	9.918319	9.545000	17.60000	4.000000	2.750992	13.22951
ROA	1.085014	1.100000	2.180000	0.011000	0.408814	8.041279
strategic orientation						
Objectives	4.239306	4.000000	5.000000	3.000000	0.595838	12.07598
Mission	4.225556	4.000000	5.000000	3.000000	0.578818	10.53392
Vision	4.110208	4.000000	5.000000	3.000000	0.589583	0.589583

Source: Prepared by the researchers based on the outputs of E-views 12 software

The descriptive statistics derived from the EViews output revealed important indicators related to the financial performance and strategic orientation of the banks under study. The average return on equity (ROE) was approximately 9.92%, with a moderate level of dispersion (standard deviation = 2.75), and a positive skewness observed based on the difference between the mean and the median. The Jarque-Bera statistic (13.23) indicates that the distribution of this variable does not follow a normal distribution. Similarly, the return on assets (ROA) recorded a relatively low average of about 1.09%, with a lower standard deviation (0.41), and a Jarque-Bera value of 8.04, also suggesting non-normality. Regarding the indicators of strategic orientation, the mean scores for objectives (4.24), mission (4.23), and vision (4.11) were relatively high, reflecting a clear strategic focus among the banks included in the sample. The relatively low standard deviations (ranging between 0.58 and 0.60) indicate a limited degree of variation across institutions in these dimensions. The Jarque-Bera test results show that the distributions of both objectives (12.08) and mission (10.53) deviate from normality, while the vision variable appears to follow a more normal distribution (Jarque-Bera = 0.59). These results highlight significant variability in financial performance among the banks, in contrast to a relative similarity in their strategic orientations.

3.5. Correlation matrix

This analysis aims to reveal the nature and strength of the relationships between financial performance indicators and the dimensions of strategic orientation, as presented in the following table :

Table (3): Correlation Matrix of the Study Variables

variables	ROE	ROA	Objectives	Mission	Vision
ROE	7.515402	-0.097368	0.045327	-0.160859	-0.113735
ROA	-0.097368	0.165968	-0.020704	-0.016173	0.001673
Objectives	0.045327	-0.020704	0.352557	0.319387	0.326532
Mission	-0.160859	-0.016173	0.319387	0.332703	0.319432
Vision	-0.113735	0.001673	0.326532	0.319432	0.345193

Source: Prepared by the researchers based on the outputs of E-views 12 software

The correlation matrix indicates that the relationship between financial performance indicators and components of strategic orientation is generally weak. The return on equity

(ROE) shows a very weak and positive correlation with objectives (0.045), and negative correlations with both mission (-0.161) and vision (-0.113). Similarly, the return on assets (ROA) is slightly negatively correlated with objectives (-0.020) and mission (-0.016), while its correlation with vision is nearly negligible (0.0017). In contrast, the relationships among the dimensions of strategic orientation themselves exhibit moderately positive correlations: objectives and mission (0.32), objectives and vision (0.33), and mission and vision (0.32). These results suggest a certain level of internal consistency among the strategic orientation components adopted by the banks, while the connection between these components and financial performance indicators appears limited.

3.6. Empirical regression models on performance

The econometric models adopted in this study were constructed based on the applied literature relevant to the research topic, taking into account the nature of the research problem, which focuses on analyzing the dimensions of the study variables. Accordingly, two independent econometric models will be adopted. These empirical regression models on performance aim to explore the relationship between strategic orientation dimensions and financial performance indicators. The general formulation of these models can be presented as follows:

– **Model 1:**

$$BROE_{i,t} = \beta_0 + \beta_1 VISION_{i,t} + \beta_2 MISSION_{i,t} + \beta_3 OBJECTIVES_{i,t} + \varepsilon_{i,t} \quad (1)$$

– **Model 2:**

$$BROA_{i,t} = \beta_0 + \beta_1 VISION_{i,t} + \beta_2 MISSION_{i,t} + \beta_3 OBJECTIVES_{i,t} + \varepsilon_{i,t} \quad (2)$$

These models contribute to a comprehensive analysis of how the dimensions of strategic orientation influence various aspects of bank financial performance, thereby providing a strong empirical foundation for the subsequent analysis.

Where:

ROE = Return on equity

ROA = Return on assets

i = Bank index

t = Time period

β = Coefficient parameters

ε = Residual error

3.7. Regression results

The estimation results of the basic panel data models are presented, showing the P-values, R-squared, and Durbin-Watson statistics for the study variables under both ROE and ROA models.

Table (4): Estimation of Basic Panel Data Models

	Model 1 ROE			Model 2 ROA		
	pls	fixed	random	pls	fixed	random
	P -value					
vision	0,2217	0,3117	0,2854	0,0008	0,1713	0,0579
mission	0,0024	0,2424	0,1687	0,1216	0,3897	0,7284
objectives	0,0000	0,0652	0,0337	0,0254	0,0066	0,0060
R-squared	0,1351	0,5774	0,0476	0,0844	0,4919	0,0602
Adjusted R-squared	0,1166	0,5456	0,0272	0,0648	0,4539	0,0401
Durbin-Watson stat	0,2569	0,3754	0,3542	0,9663	1,5710	1,0850

Source: Prepared by the researchers based on the outputs of E-views 12 software

Table 4 presents the estimation results of basic panel data models applied to both ROE (Model 1) and ROA (Model 2) as dependent variables, using pooled least squares (PLS), fixed effects, and random effects estimators. For Model 1 (ROE), the vision variable is not statistically significant across all models (p-values ranging from 0.2217 to 0.3117), while mission is significant only under PLS estimation ($p = 0.0024$), losing significance in both fixed and random effects models. Conversely, objectives consistently exhibit a significant effect on ROE across the three estimators, with p-values of 0.0000 (PLS), 0.0652 (fixed effects), and 0.0337 (random effects). The explanatory power, as indicated by R-squared, is highest under the fixed effects model ($R^2 = 0.5774$) for ROE, suggesting that unobserved heterogeneity across entities plays an important role. For Model 2 (ROA), the vision variable is significant only under PLS estimation ($p = 0.0008$), while mission remains insignificant across all models (p-values between 0.1216 and 0.7284). The objectives variable maintains statistical significance across all estimators (p-values between 0.0060 and 0.0254), indicating its robust association with ROA. The R-squared values for ROA show a similar pattern, with fixed effects yielding the highest explanatory power ($R^2 = 0.4919$). The Durbin-Watson statistics suggest potential serial correlation in most specifications, particularly in Model 1, where values are considerably lower than the threshold for independence, whereas Model 2 presents

The conclusions drawn from the panel data models indicate that clearly defined institutional objectives are the most influential and consistent factor in enhancing the financial performance of Malaysian banks (ROE and ROA). This finding aligns with the results of (Hussain, Abdullah, & Shaari, 2012), who revealed disparities in the efficiency and profitability of Islamic banks in Malaysia and pointed to weaknesses in certain banking operations that need to be addressed to improve competitiveness with the conventional banking system. These findings highlight that translating vision and mission statements into concrete, measurable objectives is a critical step toward improving financial performance, particularly in an environment characterized by varying levels of efficiency and profitability across different bank branches and institutions.

Table (5): Results for POLS, Fixed effects and random effects model

	Tests	p-value	Accept/reject	interpretation
Model 1 ROE	Fixed Effects Redundancy test	0.0000	H_0 : reject	<i>Pols is rejected</i>
	Hausman test	0.1603	H_0 : accept	Random effect is applied for estimation
Model 2 ROA	Fixed Effects Redundancy test	0.0001	H_0 reject	<i>Pols is rejected</i>
	Hausman test	0.7449	H_0 accept	Random effect is applied for estimation

Source: Prepared by the researchers based on the outputs of E-views 12 software.

Table 5 presents the results of the POLS, Fixed Effects, and Random Effects models. To identify the appropriate estimation method for the panel data analysis, the Fixed Effects Redundancy test and the Hausman test were applied. For Model 1 (ROE), the Fixed Effects Redundancy test produced a p-value of 0.0000, leading to the rejection of the null hypothesis and indicating that the POLS model is unsuitable. The subsequent Hausman test returned a p-value of 0.1603, suggesting that the null hypothesis cannot be rejected; therefore, the random effects model is preferred over the fixed effects model for estimating the impact of strategic orientation dimensions on ROE. Likewise, for Model 2 (ROA), the Fixed Effects Redundancy test yielded a p-value of 0.0001, again rejecting the POLS

approach. The Hausman test for this model produced a p-value of 0.7449, confirming the appropriateness of the random effects estimator. Overall, the results indicate that the random effects model is the most suitable for both models, as it accounts for unobserved heterogeneity while maintaining estimation efficiency.

In panel data analysis, there are unobserved differences between units that may or may not be correlated with the explanatory variables. The fixed effects model allows for the handling of such correlations, whereas the random effects model assumes no correlation, thus providing more efficient estimates. The Hausman test is used to choose the appropriate model, and the random effects model is preferred if no correlation is proven—especially in complex and dynamic environments characterized by unobserved differences that do not affect the relationship between variables and outcomes. (Hsiao, 2014)

In this context, the adoption of the random effects model in both ROE and ROA models indicates the presence of unobserved differences between banks—such as internal policies or managerial structure—that affect financial performance without being directly related to the studied variables. This choice is appropriate for the complex and dynamic nature of the Malaysian banking sector, where hidden differences among banks influence outcomes. It enhances the credibility of the analysis and provides a strong foundation for statistical conclusions regarding the impact of strategic orientation on financial performance.

3.8. Results and discussion

This stage of the analysis aims to estimate the study models using the random effects model, which was found to be appropriate based on the previous tests. This section illustrates the relationship between the dimensions of strategic orientation (vision, mission, and objectives) and the financial performance indicators (ROE and ROA), through the presentation of coefficients and p-values. Supporting statistical indicators, such as the coefficient of determination and the Durbin-Watson statistic, are also included, as shown in the following table:

Table (6): Estimation of Study Models with random effects model			
Variables		ROE	ROA
Vision	Prob	0,2854	0,0579
	Coef	-1,0489	0,3013
Mission	Prob	0,1687	0,7284
	Coef	-1,3351	0,0541
Objectives	Prob	0,0337	0,0060
	Coef	2,0051	-0,4179
R-squared		0,0476	0,0602
Adjusted R-squared		0,0272	0,0401
Durbin-Watson stat		0,3542	1,3915

Source: Prepared by the researchers based on the outputs of E-views 12 software.

Based on the results presented in Table (6), the findings reveal heterogeneous effects of the strategic orientation components on bank financial performance. Among the three dimensions, strategic objectives emerge as the most influential and consistent determinant of performance. Specifically, objectives exhibit a statistically significant and positive effect on ROE ($p = 0.0337$; coefficient = 2.0051), indicating that banks with clearly articulated,

measurable, and performance-oriented objectives tend to generate higher returns for shareholders. This result is consistent with recent empirical evidence highlighting the central role of goal clarity and objective-setting in enhancing banking profitability, particularly in emerging and regulated financial systems (Arif et al., 2023; Mukhibad et al., 2024).

In the ROA model, strategic objectives also remain statistically significant ($p = 0.0060$); however, the estimated coefficient is negative. This finding suggests that while the pursuit of ambitious strategic objectives may enhance overall profitability and shareholder returns, it may simultaneously involve short-term investments, increased operational costs, or higher risk exposure that temporarily reduce asset efficiency. Similar trade-offs have been documented in contemporary banking literature, which emphasizes that strategic initiatives often exert delayed or non-linear effects on asset-based performance indicators (Rahmalia et al., 2024; Xie & Wang, 2023).

In contrast, the effects of vision and mission statements on financial performance appear limited and largely indirect. Neither variable shows a statistically significant impact on ROE, suggesting that broad strategic declarations alone do not automatically translate into higher shareholder returns. However, vision displays a marginally significant and positive association with ROA ($p = 0.0579$), indicating that a clear and coherent vision may contribute to improved asset utilization by guiding long-term resource allocation and enhancing organizational coherence. This result aligns with recent studies emphasizing that vision clarity primarily supports efficiency, strategic alignment, and long-term orientation rather than immediate financial outcomes (Roziana & Fazli, 2024; Roblek & Meško, 2019). The mission variable remains statistically insignificant in both models, reinforcing arguments in the contemporary literature that mission statements often serve symbolic or legitimizing functions, with indirect or long-term financial implications rather than immediate measurable effects (Isa et al., 2023).

Overall, these findings suggest that the financial relevance of strategic orientation in Malaysian banks is largely realized through the effective translation of vision and mission into concrete, actionable, and measurable strategic objectives. This observation is consistent with the Resource-Based View, which posits that intangible strategic resources generate value only when they are operationalized through effective implementation mechanisms and aligned with organizational processes (Ul Rehman et al., 2023).

Despite the statistical significance of several estimated coefficients, the overall explanatory power of the models remains relatively modest, as reflected by R-squared values of 0.0476 for the ROE model and 0.0602 for the ROA model. Such levels of explanatory power are commonly reported in empirical banking studies examining strategic and organizational determinants of performance, given that bank profitability is influenced by a wide range of bank-specific, industry-related, and macroeconomic factors beyond strategic orientation alone. These factors include monetary policy conditions, regulatory frameworks, governance structures, competitive intensity, and risk management practices (Athanasoglou et al., 2008; Isa et al., 2023). Moreover, the relatively weak bivariate correlations between strategic orientation dimensions and performance indicators do not contradict the regression results, as strategic variables typically exert their influence through complex, indirect, and long-term mechanisms rather than strong contemporaneous associations.

Furthermore, the Durbin–Watson statistics indicate the presence of serial correlation in the residuals, particularly in the ROE model. This pattern is frequently observed in long-panel banking data and suggests that financial performance may exhibit dynamic behavior over time. Accordingly, future research could enhance the robustness of causal inference by employing dynamic panel estimators, such as the Generalized Method of Moments (GMM),

and by incorporating additional control variables capturing macroeconomic, institutional, and regulatory conditions.

In sum, the results highlight the context-dependent and partial role of strategic orientation in shaping the financial performance of Malaysian banks. While strategic objectives exert a measurable and robust influence on both ROE and ROA, the effects of vision and mission appear more indirect and long-term in nature. These findings underscore the importance of complementing strategic orientation with effective governance, sound risk management practices, and adaptive responses to the evolving economic and regulatory environment in order to achieve sustainable financial performance.

Conclusion

The findings of this study demonstrate that strategic objectives constitute the most influential and consistent dimension of strategic orientation in enhancing the financial performance of Malaysian banks, as reflected in both return on equity (ROE) and return on assets (ROA). In contrast, the vision and mission dimensions exhibit limited and largely statistically insignificant direct effects, suggesting that broad strategic statements alone are insufficient to generate measurable financial outcomes. These results indicate that the financial value of strategic orientation materializes primarily when vision and mission are effectively translated into concrete, actionable, and measurable objectives.

Despite the statistical significance of certain strategic dimensions, the overall explanatory power of the estimated models remains modest, highlighting the multifactorial nature of bank profitability. Financial performance in the banking sector is shaped by a complex interaction of strategic, institutional, regulatory, and macroeconomic factors that extend beyond strategic orientation alone. Accordingly, the findings should be interpreted as evidence of a partial yet meaningful role of strategic orientation rather than a comprehensive explanation of bank performance.

From a practical perspective, the study underscores the importance for Malaysian banks of prioritizing the formulation and implementation of SMART objectives—specific, measurable, achievable, relevant, and time-bound—while ensuring their coherence with an overarching strategic vision and mission. Strengthening mechanisms for monitoring and evaluating strategic objectives may enhance strategic alignment, operational efficiency, and long-term financial sustainability in an increasingly competitive and regulated banking environment.

Finally, this study is subject to certain limitations that open avenues for future research. The potential presence of dynamic effects and reverse causality between strategic orientation and financial performance could be further explored using dynamic panel estimators or instrumental variable approaches. Moreover, future studies may enrich the analytical framework by incorporating additional control variables related to corporate governance, risk management practices, competitive intensity, and macroeconomic conditions, thereby providing a more comprehensive understanding of the determinants of bank profitability.

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