The Analysis of Leadership and Marketing Factors on Bank Branch Expansion Performance

Opas Kitkamhang
Faculty of Business Administration,
Siam Technology College, Thailand
mr_opas@yahoo.com

Abstract - **The objective of this study is to analyze the effect of leadership style and the marketing factors on the bank branch expansion performance. The data set were comprised of 228 cases of middle and senior level bank executives who responded to the questionnaire capturing focal construct using five-point Likert scale. The Cronbach's - coefficient was applied to measure the internal consistency of the scale. The questions were comprised of the selected factors that are assumed to influence the performance of bank branch expansion such as leadership style, job satisfaction, bank's target and inspiration. Structural Equation Model (SEM) was adopted in the empirical model construction which it was developed from multi linear regression whose coefficient in each structure provides the percentage of contribution for each variable. The empirical results found that the proposed structure was significant at 0.05 level which maintained the value of 0.940 Goodness of Fit Index (GFI). Based on the regression coefficient estimates and the t-statistic generated from the analysis, the performance of banking regarding branch expansion was significantly influenced by leadership style, inspiration and job satisfaction. But the bank's target was not strong to influence the performance bank branch expansion. It proves that the efficiency in banking industry which is considered as one of the banking performance indicators is not significantly the main thing caused by the increased number of branch and size. On the contrary, the psychological motivation pushed by the bank executives such as inspiration or job satisfaction would strongly lead to achieve the company's goal. These results compile with the transformational leadership theory (1970) that the way people interact with others is able to create a strong relationship.**

Keywords - **Structural Equation Model, Marketing Factors, Leadership, Branch Expansion**

I. INTRODUCTION

Financial intermediaries that largely play an important role to the growing economy are widely known as banks which generally accept deposit and grant loan to those who are in need. These are considered as the people who efficiently utilize the source of fund to create a new product and investment. There are various forms of circulation of money flow in the global financial market such as international financial investment, international trade and international guarantee which are facilitated by these financial institutions. Therefore, we consider Thai economy as bank-based economy which depends intensively on bank's source of fund.

Banking in Thailand has been optimally managed to expand the bank services for all over regions in Thailand which they expected that their products and services would be broaden as wide as possible to get closer access to their customer and escalate in all provinces. However, after 2007, there are slow down for the bank branch expansion which

can be caused by several reasons. One of the major discussion is the dynamic of customer preferences on banking services which we recently observed that many banks in Thailand was totally affected by the sudden change in technology which their customer tend to use more services on electronic banking rather than physical branch. As these results, branches opening plan will be suspended for many banks in Thailand.
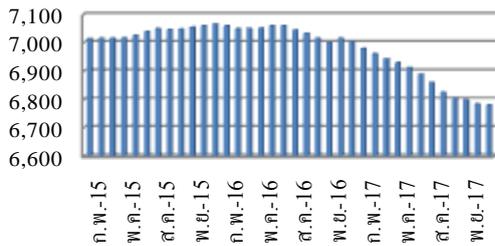
Source: Bank of Thailand

Fig. 1 Overall Number of Bank Branch as of February 2015 to February 2018

As you will see on the Fig. 1, we found the dramatically decreasing on the number of branch since midyear 2016 and afterward [1]. This may confirm that banks are downsizing their branches in response to the change in the market conditions.
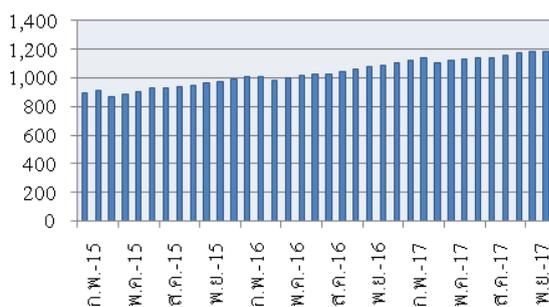
Source: Bank of Thailand

Fig. 2 Overall Thai Commercial Bank's Retain Earning as of February 2015 to February 2018

Surprisingly, Fig. 2 showed, the retain earning kept by overall commercial banks which they are continuously increasing until now [2]. According to this finding, we may have some queries that the bank branch expansion may not largely affect the Thai bank performance. In addition, they may have some

others factors that significantly contribute a great effect to the Thai bank performance.

According to this phenomenon, we aim to consider their internal factors which each bank uniquely express their identity. Thus, the objective of this research is to analyze the factors determining bank branch expansion which are mainly focused on the leadership style and their marketing factors. We expect that the research results will provide a divergent contribution to the bank management committees and policy makers in identifying the significant factors influencing bank branch expansion policy. Moreover, this study may be inspired for other researchers to develop more researches contributed to the academics society.

II. LITERATURE REVIEWS

With regard to the impact of bank branch expansion, there are many studies discussing these phenomenal situations. In particular, the study of Harimaya and Kondo [3] which examined the efficiency of cost and profit for the Japanese bank branch expansion. They found that, without branch expansion, local activities aligned with the improvement of cost efficiency. In addition, expanding branch in certain level exhibited higher cost efficiency. On the other hands, an excessive branch expansion would ruin bank's cost efficiency. Considering the bank profit efficiency, they suggested that focusing on the central activities and excessive branch expansion would lower the bank's profit efficiency. As results, they proposed that focusing on an adequate level of commercial bank branch expansion would significantly improve both cost and profit efficiencies through portfolio diversification.

Nearly to the regional of Thailand, Prasetyo and Sunaryo [4] also studied the effect of Indonesia bank branch expansion and their performances. Even though, Indonesia banking business is not fully efficient which they still have room to grow up. Many banks in Indonesia mainly prioritize their policy on enlarging their size and expanding their

products to public. Thus, networking more branches would easily improve the accessibility to public. However, their study found that employing more staffs and increasing number of branches did not significantly influence the performance of their banks which it is considered as the key indicator of banking. This is an evidence supported that increasing the number of bank's branches and employees may not sufficiently be the determinants of bank efficiency level.

For Thai bank industry, Meesrichan and Fongsuwan [5] also studied various factors including leadership, location, cost and economic factors to the Thai commercial banks branch expansion. The main focus of this paper was on the influence of foreigner on Thai commercial bank as of the globalization regime. This would change the management, operating style, company's size and branches of Thai commercial bank. In this paper they suggested that scheduled branch opening may be affected by various factors. The return on investment (ROI), organization's performance, amount of loan losses, and ratio of capital to risk-weighted assets, gross national product, export, ratio of saving and spending level, bank strategic planning, staff expansion, location, branch cost and size are considered as external factors. Their finding suggested that branch expansion was not influenced by the location and cost but the corporate leaders provide largely affect to add branches and increase more service points. This study was extended in a year after by Meesrichan and Fongsuwan [6]. They further suggested that a major bank revision on 2013 for the licensing of new foreign commercial bank in the kingdom of Thailand largely influenced the bank environmental management. This studied supported the discovering that corporate leadership and economic factors strongly related to bank branch expansion. In addition, the economic factors also highly related with the leadership in setting up their strategic plan. Importantly, technology strongly influenced the customers in term of building relationship, which the technologies such as mobile phone and internet are considered as relationship marketing tools.

According to the results acquired from various studies seen above, we aim to study the marketing factors which are significantly important to the bank branch expansion. These factors are inspired by the Maslow's need hierarchy theory which is included the physiological needs, safety need, social need, esteem need and self-actualization need. In addition, the managerial planning is also one of the influential factors that we would largely focus on. These factors are mainly driven from the management preference which is considered as the leadership style. Moreover, we also employed the transformational leadership theory (1970) which states that the way people interact with others is able to create a strong relationship. Consequently, their result will provide an increasing trust, both intrinsic and extrinsic. Therefore, the executives must transform their employee through their charismatic personality and inspirational nature.

III. RESEARCH OBJECTIVES

As we focus more on analysing the effect of leadership style incorporated with the marketing factors to the bank branch expansion performance, the objective of this research is to analyze the effect of leadership style and the marketing factors to the bank branch expansion performance.

To answer for these questions, we have developed the hypotheses for testing our presented study which mainly considers the performance of bank branch expansion as follow:

H_1: Leadership (X_1) influences the performance of bank branch expansion (Z)

H_2: Leadership (X_1) influences job satisfaction (Y_2)

H_3: Leadership (X_1) influences bank's target (Y_1)

H_4: Job satisfaction (Y_2) influences performance of bank branch expansion (Z)

H_5: Inspiration (X_2) influences the performance of bank branch expansion (Z)

H_6: Inspiration (X_2) influences bank's target (Y_1)

H_7: Inspiration (X_2) influences job satisfaction (Y_2)

H_8: Bank's target (Y_1) influences the performance of bank branch expansion (Z)

H_9: Leadership (X_1) and Inspiration (X_2) influences Bank's target (Y_1)

H_{10}: Leadership (X_1) and Inspiration (X_2) influences Job satisfaction (Y_2)

IV. CONCEPTUAL FRAMEWORK

A survey research was applied to this study which mainly focused on the performance of bank branch expansion to various influential factors. The variable return on assets (ROA) and return on capital (ROC) are used to represent the bank profitability. Therefore, the performance of bank branch expansion will be measured. The ROA as suggested by Berger [7] is the most appropriate variable used to describe bank industry profitability and their performance.
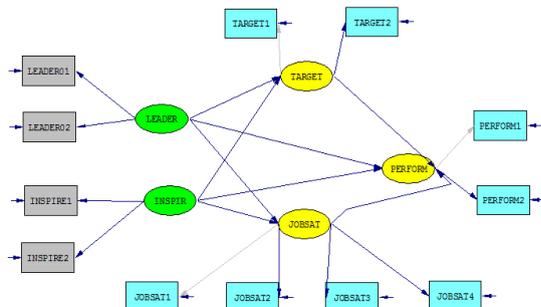
Fig. 3 The Conceptual Framework of Analyzing the Leadership and Marketing Factors on Thai Bank Performance Regarding Branch Expansion

- **Dependent Variable:** the performance of bank branch expansion which the return on assets (ROA) and return on capital (ROC) were used as the observed variables to measure.

- **Independent Variable:** the influential factors gathered from the questionnaire which bank's executives were queried using quantitative methods. The questions were included selected factors inspired by Maslow's need hierarchy theory that was assumed to influence the performance of bank branch expansion as such leadership style, job satisfaction, bank's target and employee's inspiration.

V. DATA

The questionnaires used in this study were created to be a measurement tool that was consistent with the research conceptual framework. The population size was based on 228 cases of middle and senior level banking executive. The reasons for employing the entire unit of interest were to increase the consistency and correctness of model construction in the structural equation model even though it may increase the cost. Name of the commercial bank used in this study was prohibited for their privacy. However, this bank is an excellent representative for this sector since their company size is considered as median.

TABLE I
SURVEY INFORMATION

Position	Frequency	Percentage	Cumulative (%)
Executive Director	15	6.58	6.58
Assistant Director	37	16.23	22.81
Project Manager	74	32.46	55.26
Middle manager	102	44.74	100.00
Total	**228**	**100.0**	

The middle and senior level banking executives were selected to be a population in order to acquire the response for the questions

capturing focal construct using five-point Likert scale [8] with a rating statements 1-5; where 1 is represented for "Not all Important" and 5 is represented for "Very Important" (Table II). The Cronbach's α - coefficient was applied to measure the internal consistency of the scale. The Cronbach's α -coefficient is indicated as high reliability of value of at least 0.70 is the basis of the questionnaire reliability (Cronbach, 1951) [9].

TABLE II
5-POINT LIKERT SCALE AND RANGE OF MEAN SCORE

Range of Mean Score	Level of Important
4.21 – 5.00	Very Important
3.41 – 4.20	Important
2.61 – 3.40	Neutral
1.81 – 2.60	Unimportant
1.00 – 1.80	Not at all important

VI. RESEARCH METHODOLOGY

The empirical model in this study adopted the constructive method of structural equation model or path analysis with latent variables, which is the technique developed from multi linear regression. The SEM is applied to examine the percentage of contribution found from the estimated coefficient in each structure from the causal link between variables. Robert, D. Retherford [10] suggested that path analysis with latent variables have been used to analyse the causal relationship occurred in the multiple regression while the independent variable affects the dependent variable either in directly or indirectly.

The data calculation has been tabulated in Microsoft excel program which is ready-to-use to be exported into the completed statistical software program for further processes of the analysis. The Principal Component Analysis (PCA) with a varimax rotation was conducted for exploratory factor analysis. We then performed the confirmatory factor analysis with structured equation modelling (SEM). The descriptive statistical analysis and the causal effect between variables were generated by using the technique of path analysis with latent variables. The theoretical structures that

will be developed are presented in Fig. 3, which constitutes the completed structural model. However, they could be breakdown into number of the sub structures shown below, which will also be used to examine the proposed research hypotheses:

Sub Structure 1: $Z = \rho_2 X_1 + e_1$

Sub Structure 2: $Y_2 = \rho_3 X_1 + e_2$

Sub Structure 3: $Y_1 = \rho_1 X_1 + e_3$

Sub Structure 4: $Z = \rho_8 Y_2 + e_4$

Sub Structure 5: $Z = \rho_5 X_2 + e_5$

Sub Structure 6: $Y_1 = \rho_6 X_2 + e_6$

Sub Structure 7: $Y_2 = \rho_6 X_2 + e_7$

Sub Structure 8: $Z = \rho_7 Y_1 + e_8$

Sub Structure 9: $Y_1 = \rho_1 X_1 + \rho_4 X_2 + e_9$

Sub Structure 10: $Y_2 = \rho_3 X_1 + \rho_6 X_2 + e_{10}$

where;

Z denote the endogenous latent variable represented by performance of bank branch expansion

X_1 denote exogenous latent variable represented by leadership style

X_2 denote exogenous latent variable represented by inspiration

Y_1 denote endogenous latent variable represented by bank's target

Y_2 denote endogenous latent variable represented by job satisfaction

$e_1,...,e_9$ denote an error terms occurring in each equation

To measure the significance of model, Hair et al., [11] suggested using a Goodness of Fit Index (GFI) which the higher the value of GFI would indicates the model maintaining the

higher fit with the observed data. In general, the GFI should lie in between the value of 0.90-1.00.

VII. EMPRIRICAL RESULTS

Among the 228 respondents, 101 employees are male and the remaining 127 are female banking employees. In the whole sample, 6.1% of the respondents fall in the age range of 26-30 years, 25.0% fall in the 31-35 years range, 36.8% in the 36-40 years range, and the rest of 32.0% range above 40 years. The Cronbach alpha value for this study is 0.875, which meets the criteria of cut off point. Then we followed the process of exploratory factor analysis. The estimates of Kaiser-Meyer-Olkin (KMO) which is a measure of sampling adequacy for this study, is found as 0.873, which is acceptable (Kaiser & Rice, 1974) [12].

After identifying clear common factors through exploratory factor analysis, the next stage was to confirm the common factor structure by applying the procedures of confirmation factor analysis in a completed statistical programming. The indicators used to measure the model fitting were the χ^2, χ^2/df ,GFI, AGFI RMSE and RMSEA. Due to the empirical results, we found that the estimated values of the fit indices provided a reasonable fit with observed data of the measurement model. With the information acquired from the middle and senior level bank executives, we followed the estimation procedures of path analysis with latent variables which the Fig. 4, illustrated the coefficient estimates of the proposed structure. The structure was significant at 0.05 level, which the value of Goodness of Fit Index (GFI) was maintained at 0.940. Therefore, the proposed model was reasonably fit with the observed data.
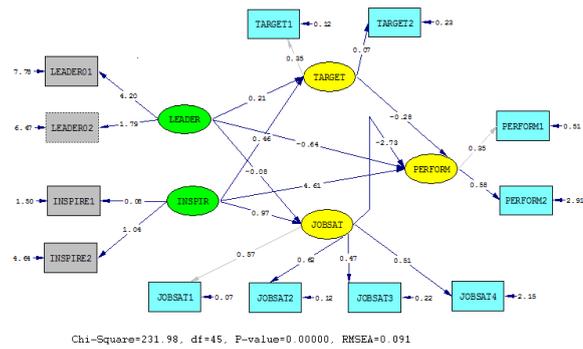

Fig. 4 The Correlation Coefficient of Standardized Regression Test

Due to the regression coefficient estimates generated from the analysis, we could also illustrate in an equation form as shown below in the Table III. Each of the coefficient estimates implicitly provided the level of significance which each variable provided to the estimated parameters.

TABLE III
THE PATH COEFFICIENT (ρ)
OF EACH SUB STRUCTURE ILLUSTRATED
IN AN EQUATION FORM

Sub Structure	Structural Equation
1	$\hat{Z} = -0.64X_1$
2	$\hat{Y}_2 = -0.08X_1$
3	$\hat{Y}_1 = 0.21X_1$
4	$\hat{Z} = -2.73Y_2$
5	$\hat{Z} = 4.61X_2$
6	$\hat{Y}_1 = 0.46X_2$
7	$\hat{Y}_2 = 0.97X_2$
8	$\hat{Z} = -0.28Y_1$
9	$\hat{Y}_1 = 0.21X_1 + 0.46X_2$
10	$\hat{Y}_2 = -0.08X_1 + 0.97X_2$

Considering the t-value of the estimated regression coefficient generated from the structural equation model, we found that most of them were statistically different from zero with 0.05 level of significant. Especially, the leadership style directly affected the bank

branch expansion since the bank expansion plan was mainly due to the executive view point where they expected that the branch may increase the profit. This evidence is aligned with various studies such as Meesrichan and Fongsuwan [5] that concluded the branch expansion was not influenced by the location and cost but the corporate leaders provide largely affect to add branches and increase more service points.
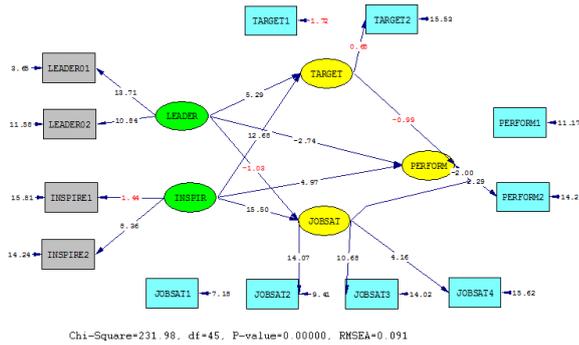

Chi-Square=231.98, df=45, P-value=0.00000, RMSEA=0.091

Fig. 5 The Test Statistic of Correlation Coefficient of Standardized Regression Test

Obviously, we found that the indirect effect of leadership and bank's target to the performance of bank branch expansion were no longer significant. Moreover, considering for the leadership and job satisfaction to the performance of bank branch expansion, we also found that the leadership was not statistically different from zero with 0.05 level of significant. Therefore, leadership style may not stimulate the performance of bank branch expansion through the bank's target and employee's job satisfaction. Even though, the leadership may motivate the bank target but may not fully pass the strong effect to branch expansion performance. This explanation can be applied to the job satisfaction which leadership may not fully pass through the strong effect to bank branch expansion performance via job satisfaction.

This could be inferred from the finding that the leadership style may influence the bank's target which all follower need to execute this strategy but the performance of branch expansion may largely influence by the psychological factors, job satisfaction, that pushed out the employee's motivation to achieve the goal.

TABLE IV
THE TEST STATISTIC OF CORRELATION COEFFICIENT OF EACH SUB STRUCTURE

Sub Structure	Independent Variable	Dependent Variable		
		Z	Y_1	Y_2
1	X_1	-2.74*		
2	X_1			-1.03
3	X_1		5.29*	
4	Y_2	2.29*		
5	X_2	4.97*		
6	X_2		12.68*	
7	X_2			15.50*
8	Y_1	-0.99		
9	X_1		5.29*	
	X_2		12.68*	
10	X_1			-1.03
	X_2			15.50*

* At 5% level of significant

Therefore, in order to bring the best of their employee, good leaderships must sincerely motivate the inside employee's ambitious and determine a reasonable company's target in order to complied with job satisfaction. This study was expected to provide these empirical evidences to any company executives to mainly consider their feeling of employee. If the executive could obviously show their sympathetic during working such as gifts of tangible personal property, flowers, may be presented as an expression of congratulations or sympathy, the employee would bring out their best to compensate with their hard working and company royalty. Thus, motivating them to achieve the goal is easily to push up via their psychological factors such as job satisfaction or inspiration.

VIII. DISCUSSION AND CONCLUSION

This study is conducted to analyze the effect of leadership style and the marketing factors to the bank branch expansion performance. According to the research's results and data analysis, they can be suggested that the performance of bank branch expansion does not have any significantly effect to the bank's target. As the matter of fact, the performance of banking regarding branch expansion was significantly affected by leadership style, inspiration and job satisfaction. Therefore, it proved that the efficiency in banking industry which is considered as one of the banking performance indicators was not the main effect caused by the increased number of branches and size. On the other hand, the psychological factors that largely pushed up the employee's motivation to achieve the goal setup by the bank executives were employee inspiration, job satisfaction and especially the viewpoint of leadership for the prospective future. These results compile with the theory of transformational leadership (1970) that the way people interact with others is able to create a strong relationship. The results of this study need to be acknowledged in light of its limitations. The data are collected only from selective banks based on the convenience of the researchers. Therefore, future research should be conducted on a larger scale by considering more banks to authenticate the findings of the study.

REFERENCES

(Arranged in the order of citation in the same fashion as the case of Footnotes.)

[1] Bank of Thailand. (2018). "Number of all branches of Commercial Banks". <https://www.bot.or.th/English/Statistics/FinancialInstitutions/Pages/StatNumberofBranches.aspx>.

[2] Bank of Thailand. (2018). "All Comercial Bank Assets and Liabilities". <https://www.bot.or.th/Thai/Statistics/FinancialInstitutions/Pages/StatAssetsandLiabilities.aspx>.

[3] Harimaya, K. and Kazumine, K. (2012). "The Effects of Branch Expansion on Bank Efficiency: Evidence from Japanese Regional Banks". Journal of Money and Finance, the Korea Money and Finance Association.

[4] Prasetyo, H. and Sony, S. (2015). "The Branch Expansion and the Performance of the Bank: The Case of Indonesia". Bulletin of Monetary Economics and Banking, Vol. 18(1), pp. 85-106.

[5] Meesrichan, S. and Wanno, F. (2014). "An Analysis of Thai Comercial Banks Branch Expansion Factors Including Leadership, Location, Cost, and Economics". Research Journal of Business Management, Vol. 8(4), pp. 552-565.

[6] Meesrichan, S. and Wanno, F. (2015). "Structural Equation Model of Factors Affecting Thailand's Comercial Bank Branch Expansion". Research Journal of Business Management, Vol. 9(2), pp. 319-334.

[7] Berger, A., Leora, K., and Rima, T.A. (2009). "Bank Competition and Financial Stability". Journal of Financial Services Research, Vol. 35(2), pp. 99-118.

[8] Likert, R. (1970). "A Technique for the Measurement of Attitudes". In: Attitude Assessment, Summer, G.F. (Ed). Rand-McNally and Company, Chicago, IL., USA., pp. 149-158.

[9] Cronbach, L.J. (1951). "Coefficient Alpha and the Internal Structure of Tests". Psychometrika, Vol. 16(3), pp. 297-334.

[10] Robert, D.R. and Minja, K.C. (1993). "Statistical Models for Causal Analysis". John Wiley & Sons, Inc.

[11] Hair Jr., J.F., Anderson, R.E., Tatham, R.L., and Black, W.C. (1998). "Multivariate Data Analysis with readings (5th Ed.)" Prentice Hale, New York, NY.

[12] Kaiser, H.F. and Rice, J. (1974). "Little Jiffy Mark". Educational and Psychological Measurement, Vol. 34(1), pp. 111-117.