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

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Abstract - The objective of this study was to analyse the effect of leadership style and marketing factors on the performance of bank branch expansion. The data set consisted of 228 middle and senior level bank executives who responded to a five-point Likert Scale questionnaire. The Cronbach’s $\alpha$-coefficient test was applied to measure the internal consistency of the Scale. The questions consisted of selected factors that were assumed to influence the performance of bank branch expansion including leadership style, employee job satisfaction and inspiration, and each bank’s target. The Structural Equation Model (SEM) was adopted as the empirical model which yields multi linear regression coefficients for each structure and provides the percentage of contribution for each variable. The results showed 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-test generated from the analysis, bank branch expansion performance was significantly influenced by leadership style, including employee inspiration and job satisfaction. But the banks’ targets were not strongly influenced by the performance of bank branch expansion. It proves that the efficiency in the banking industry, which is considered as one of the banking performance indicators, was not significantly affected by an increase in the number and size of branches. On the contrary, psychological motivation factors, such as inspiration and employee satisfaction, on the part of the banks’ executives, were the factors that led to achievement of the company’s goal. These results are consistent with the transformational leadership theory (1970), namely, where a leader works with teams to identify needed change, creating a vision to guide the change through inspiration, and executing the change in tandem with committed members.

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

I. INTRODUCTION

Financial intermediaries that play an important role to economic growth are banks which accept deposits and grant loans to those who are in need and are credit worthy. These are considered to be the institutions which efficiently utilise their capital resources to fund product creation and development, for example. There are various forms by which money is circulated and flow-paths in the global financial market such as international financial investment, international trade and international guarantees which are facilitated by these financial institutions. The Thai economy, for example, is a bank-based economy which depends intensively on banks as the principal source of capital.

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 was a slowdown in bank branch expansions due to several reasons. One of the major reasons was the dynamic of customer preferences for banking services. Many banks in Thailand were totally affected by the sudden change in technology by which customers began using electronic banking rather than by visiting their local branch. As a result, branch opening plans were suspended by many banks in Thailand.

**Figure 1:** Number of Bank Branches as of February 2015 to February 2018

![Graph](image)

**Source:** Bank of Thailand

As you will see in **Figure 1**, the data show a dramatic decrease in the number of branches between midyear 2016 and afterward [1]. These data indicate the banks’ response to changes in market conditions.

**Figure 2:** Thai Commercial Banks’ Retained Earnings as of February 2015 to February 2018

![Graph](image)

**Source:** Bank of Thailand

Surprisingly, **Figure 2** shows the retained earnings of commercial banks were continuously increasing. [2]. These data suggest that bank branch expansion activities may not have had a significant effect on the performance of commercial banks in Thailand. However there may have been some other factors that contributed significantly to Thai bank performance.

Accordingly, we aim to consider if there were internal factors unique to Thai commercial banks. Thus, the objective of this research was to analyse factors such as leadership style and marketing factors. We expect that the results of this research will provide a divergent interpretation for bank management committees and policy makers by identifying the significant factors that influenced bank branch expansion policy. Moreover, this study may inspire other researchers to explore other topics related to the commercial banking industry.

**II. LITERATURE REVIEW**

With regard to the impact of bank branch expansion, there are many studies which focus on this topic. 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 were aligned with the improvement of cost efficiency. In addition, expanding branches to a certain level produced higher cost efficiency. On the other hand, an excessive expansion of branches would ruin bank’s cost efficiency. Considering bank profit efficiency, the researchers suggested that focusing on the central activities and excessive branch expansion would lower the banks’ profit efficiency. They proposed that focusing on a more gradual level of commercial bank branch expansion would significantly improve both cost and profit efficiencies through portfolio diversification.

Nearer to the region of Thailand, Prasetyo and Sony [4] studied the effect of Indonesia’s bank branch expansion upon their banks’ performance. Indonesia’s banking business is continuing with measures to increase its efficiency. Many banks in Indonesia were mainly giving priority to enlarging their size and expanding
their products. Thus, adding more branches would easily improve customer accessibility. However, their study found that employing more staff and increasing the number of branches did not significantly affect the performance of their banks, a key indicator in the banking industry.

This is further evidence that increasing the number of branches and employees may not result in increased bank efficiency levels.

For Thai banking industry, Meesrichan and Wanno [5] also studied various factors including leadership, location, cost and economic growth factors in relation to the Thai commercial banks’ branch expansion. The main focus of their paper was on the influence of foreign financial markets, for example, on Thai commercial banks and their global strategies. These would affect the management, operating style, bank size and bank branches.

In their paper they suggested that scheduled branch openings 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 were considered as external factors.

Their findings suggested that branch expansion was not influenced by the location and cost but the corporate leaders decision to add branches and increase more service points.

This study was extended in the succeeding year by Meesrichan and Wanno [6] in which they further suggested that a major bank revision in 2013 that permitted the licensing of foreign commercial banks in the Kingdom of Thailand, largely the management environment of Thai banks. Their study supported the findings that there was a strong relationship between corporate leadership and economic factors and bank branch expansion decisions. In addition, economic factors were given high priority by the leadership when setting up their strategic plan.

Importantly, technology had begun to strongly influence the banks’ customers. The new technologies such as mobile phones and the Internet were becoming the vehicle for maintaining and building relationships with customers and as marketing tools.

According to the results from these various studies, we aimed to study the various factors which were important to the bank branch expansion.

These factors had been identified earlier in the ‘hierarchy of needs theory’ proposed by Maslow: physiological needs, safety needs, social needs, esteem needs and self-actualisation needs.

In addition, we aimed to study managerial leadership preferences with respect to creating a strong relationship with bank employees by building trust and using both charismatic and inspiration means, as found in the theory of transformational leadership (1970).

This theory holds that leaders can inspire workers to embrace change by fostering a company culture that builds trust in the changes being proposed by organisational leaders.

**III. RESEARCH OBJECTIVES**

Our focus was on analysing the effect of leadership style, including employee job satisfaction and marketing factors, on performance of bank branch expansion.

To determine the significance of these variables on the performance of bank branch expansion, we developed ten hypotheses for testing as follows:

\[ H_1 : \text{Leadership (} X_1 \text{)} \text{ influences the performance of bank branch expansion (} Z \text{)} \]

\[ H_2 : \text{Leadership (} X_1 \text{)} \text{ influences job satisfaction (} Y_2 \text{)} \]

\[ H_3 : \text{Leadership (} X_1 \text{)} \text{ influences the bank’s target (} Y_3 \text{)} \]

\[ H_4 : \text{Job satisfaction (} Y_2 \text{)} \text{ influences performance of bank branch expansion (} Z \text{)} \]
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$H_5$ : Inspiration ($X_2$) influences the performance of bank branch expansion ($Z$)

$H_6$ : Inspiration ($X_2$) influences the 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 the 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 methodology was employed to study the performance of bank branch expansion with respect to various factors. Two variables, returns on assets (ROA) and returns on capital (ROC), were used as a measure of the bank profitability. The ROA, as suggested by Berger [7], is the most appropriate variable was used to describe bank industry profitability and their performance.

Figure 3: The conceptual framework for analysing leadership and marketing factors in Thai bank branch expansion

- Independent Variables: data on leadership style, job satisfaction, bank’s target and employee’s inspiration. These data were obtained through a questionnaire, based on Maslow’s needs hierarchy, and completed by bank executives.

V. RESEARCH POPULATION AND INSTRUMENTATION

The population consisted of 228 middle and senior level banking executives – the entire organisation. This was done to ensure consistency and correctness of the structural equation model. The name of the commercial bank used in this study remains anonymous in the interest of confidentiality. However, the bank is regarded as a suitable representative of the Thai banking industry, and its size represents the median.

Of the 228 respondents, 101 employees were male and 127 were female. Some 6.1% of the respondents fell in the age range of 26-30 years, 25.0% in the 31-35 age range, 36.8% in the 36-40 age range, and 32.0% were above 40 years of age. 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, was found to be 0.873, which is acceptable (Kaiser & Rice, 1974) [12].

Table 1: Survey information

<table>
<thead>
<tr>
<th>Position</th>
<th>Frequency</th>
<th>Percentage</th>
<th>Cumulative (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Director</td>
<td>15</td>
<td>6.58</td>
<td>6.58</td>
</tr>
<tr>
<td>Assistant Director</td>
<td>37</td>
<td>16.23</td>
<td>22.81</td>
</tr>
<tr>
<td>Project Manager</td>
<td>74</td>
<td>32.46</td>
<td>55.26</td>
</tr>
<tr>
<td>Middle manager</td>
<td>102</td>
<td>44.74</td>
<td>100.00</td>
</tr>
<tr>
<td>Total</td>
<td>228</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

The questionnaire used in this study was developed as an instrument to measure the
independent variables associated with leadership style, the bank’s target, inspiration and employee satisfaction.

The questionnaire employed a 5-point Likert scale [8] where 1 is “Not at all Important” and 5 is “Very Important” (Table 2). Cronbach’s $\alpha$ - coefficient was used to measure the internal consistency of the scale. Cronbach’s $\alpha$ -coefficient indicated high reliability with a value above 0.70. (Cronbach, 1951) [9].

### Table 2: 5-point Likert scale and range of mean scores

<table>
<thead>
<tr>
<th>Range of Mean Score</th>
<th>Level of Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.21 – 5.00</td>
<td>Very Important</td>
</tr>
<tr>
<td>3.41 – 4.20</td>
<td>Important</td>
</tr>
<tr>
<td>2.61 – 3.40</td>
<td>Neutral</td>
</tr>
<tr>
<td>1.81 – 2.60</td>
<td>Unimportant</td>
</tr>
<tr>
<td>1.00 – 1.80</td>
<td>Not at all important</td>
</tr>
</tbody>
</table>

VI. RESEARCH METHODOLOGY

This study adopted the constructive method of structural equation model (SEM) or path analysis with latent variables developed from multi linear regression.

The SEM was applied to examine the percentage of contribution found from the estimated coefficient in each structure from the causal link between variables.

It was Retherford [10] who suggested that path analysis could be used to identify causal relationships that are identified through multiple regression analysis in which the independent variables affect the dependent variables either directly or indirectly.

The data were tabulated using the Microsoft Excel programme, a statistical ready-to-use software programme, by which we carried out the analysis.

The Principal Component Analysis (PCA), with varimax rotation capability was used to conduct an exploratory factor analysis.

We then performed a confirmatory factor analysis with structured equation modelling (SEM). Path analysis with latent variables generated a descriptive statistical analysis as to the causal effect between variables. The theoretical structures that were developed are presented in Figure 3. They constitute the complete structural model. They were then broken down into a number of the sub structures as shown below. These were used to examine the research hypotheses:

**Sub Structure 1:**

$$Z = \rho_2 X_1 + e_1$$

**Sub Structure 2:**

$$Y_1 = \rho_1 X_1 + e_3$$

**Sub Structure 3:**

$$Y_2 = \rho_3 X_1 + e_2$$

**Sub Structure 4:**

$$Z = \rho_5 Y_2 + e_4$$

**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:**

$$Y_1 = \rho_9 X_1 + \rho_2 X_2 + e_9$$

**Sub Structure 10:**

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

Where:

- $Z$ Denotes the endogenous latent variable represented by performance of bank branch expansion
- $X_1$ Denotes the exogenous latent variable represented by performance of bank branch expansion
- $X_2$ Denotes the exogenous latent variable represented by leadership style
- $Y_1$ Denotes the endogenous latent variable represented by inspiration
- $Y_2$ Denotes the endogenous latent variable represented by the bank’s target
- $Y_3$ Denotes the endogenous latent variable represented by job satisfaction
\(e_1, ..., e_9\) Denotes an error.

To measure the significance of the model, Hair et al [11], suggested using a Goodness of Fit Index (GFI) in which the higher the value of GFI would indicate that the model maintains the higher fit with the research data. In general, the GFI was shown to lie between the values of 0.90-1.00.

VII. EMPIRICAL RESULTS

After identifying common factors through an exploratory factor analysis, the next stage was to confirm the common factor structure by undertaking a common factor analysis through the statistical programme.

The indicators used to measure the model fit were the \(\chi^2, \chi^2/df\), GFI, AGFI, RMSE and RMSEA. However, Chi-Square is highly sensitive to sample size. Thus, GFI as suggested by [11] is considered.

We found that the estimated values of the fit indices provided a reasonable fit with observed data of the measurement model.

Using the information acquired from the middle and senior level bank executives, we followed the estimation procedures of path analysis with latent variables.

Figure 4: An illustration of the correlation coefficients of the standardised regression test

Figure 4 illustrates the coefficient estimates of the common factor structure.

The structure was significant at 0.05 level, thus the value of Goodness of Fit Index (GFI) was maintained at 0.940.

Therefore, the proposed model was a reasonable fit with the observed data.

Table 3: The path coefficient (\(\rho\)) of each Sub Structure illustrated as an equation

<table>
<thead>
<tr>
<th>Sub Structure</th>
<th>Structural Equation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(\hat{Z} = -0.64X_1)</td>
</tr>
<tr>
<td>2</td>
<td>(\hat{Y}_2 = -0.08X_1)</td>
</tr>
<tr>
<td>3</td>
<td>(\hat{Y}_1 = 0.21X_1)</td>
</tr>
<tr>
<td>4</td>
<td>(\hat{Z} = -2.73Y_2)</td>
</tr>
<tr>
<td>5</td>
<td>(\hat{Z} = 4.61X_2)</td>
</tr>
<tr>
<td>6</td>
<td>(\hat{Y}_1 = 0.46X_2)</td>
</tr>
<tr>
<td>7</td>
<td>(\hat{Y}_2 = 0.97X_2)</td>
</tr>
<tr>
<td>8</td>
<td>(\hat{Z} = -0.28Y_1)</td>
</tr>
<tr>
<td>9</td>
<td>(\hat{Y}_2 = 0.21X_1 + 0.46X_2)</td>
</tr>
</tbody>
</table>

Considering the t-value of the estimated regression coefficient estimates generated from the analysis made it possible for us to illustrate these in equation form, as shown in Table 3.

Each of the coefficient estimates implicitly provided the level of significance which each variable provided to the estimated parameters.

Especially significant was the variable ‘leadership style’. This variable was directly related to the bank branch expansion plan in as much as it was developed by the bank’s executives. They had developed the expansion plan with the expectation that bank profits would increase.

This finding is closely aligned with various studies such as Meesrichan and Wanno [5], That study concluded that the decision by banks’ corporate leaders to expand the number of branches was not influenced by factors such as location and cost but, rather, to increase the number of service points.
This meant that the indirect effect of two variables, leadership and of the bank’s target, to the performance of bank branch expansion, were not significant.

Moreover, the relationship of leadership and job satisfaction to the performance of bank branch expansion was also found to be not statistically different from zero, with a 0.05 level of significance.

Therefore, the sub component of leadership style (bank’s target) and employee satisfaction may not have influenced the performance of bank branch expansion.

Even though the leadership variable is logically and actually linked to the bank’s target, our data show that it did not have a very strong effect to branch bank expansion performance.

This explanation can be applied also to the job satisfaction in as much as leadership may not fully pass through the strong effect to bank branch expansion performance via job satisfaction.

This explanation could be inferred from the finding that the leadership style may influence the bank’s target. This is because all employees are required to execute this strategy.

However, the performance of branch expansion may be more largely influenced by psychological factors such as job satisfaction. This variable proved to be stronger than employee motivation to achieve the performance goal.

We believe there are some important implications of our findings. Corporate leaders, when deciding to make substantial changes, they should not ignore giving thought to how employees might view those proposed changes.

Table 4: Correlation coefficients for each sub structure

<table>
<thead>
<tr>
<th>Sub Structure</th>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>Z</th>
<th>Y₁</th>
<th>Y₂</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>X₁</td>
<td></td>
<td>-2.74*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>X₁</td>
<td></td>
<td>-1.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>X₁</td>
<td></td>
<td>5.29*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Y₂</td>
<td></td>
<td>2.29*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>X₂</td>
<td></td>
<td>4.97*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>X₂</td>
<td></td>
<td>12.68*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>X₂</td>
<td></td>
<td>15.50*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Y₁</td>
<td></td>
<td>-0.99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>X₁</td>
<td></td>
<td>5.29*</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X₂</td>
<td></td>
<td>12.68*</td>
<td></td>
<td></td>
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<tr>
<td>10</td>
<td>X₁</td>
<td></td>
<td>-1.03</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X₂</td>
<td></td>
<td>15.50*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* At 5% level of significance

To gain strong support from those who will be responsible for implementation, managers need to consider how the proposed changes could provide benefits not only to the institution’s profit picture but to enhancing employee’s careers, including working conditions.

Also, when management sets targets and time frames, they should be reasonable. Our research would suggest that motivation and job satisfaction levels will be higher.

In undertaking this study we hoped to provide empirical evidence that would confirm our beliefs concerning the importance that company executives should give to the feelings of their employees.

Of course, there are small ways, too, to show appreciation for hard work and loyalty.
Flowers, for example, are always appreciated.

VIII. DISCUSSION AND CONCLUSION

This study analysed the effect of leadership style and marketing factors on bank branch expansion performance.

According to our research the performance of bank branch expansion did not have a significant effect on the bank’s target. It was leadership style, inspiration and job satisfaction that were significant.

Therefore, it proved that efficiency in the banking industry, which is considered as one of the banking performance indicators, was not the main factor that influenced the performance of bank branch expansions.

Our research showed that it was psychological factors that largely pushed up the motivation levels of employees, which contributed to the achievement of goals which had been established by the bank executives. These are consistent with the theory of transformational leadership.

We acknowledge a limitation. The data were collected from one major banking institution. Future research should be conducted involving a greater number of banks to determine if our findings can be generalised to the whole Thai banking industry.

REFERENCES

(Arranged in the order of citations which appear throughout the article)


