

Assessment of Branch Performance in Commercial Bank of Ethiopia: The Case of Gida Ayana Branch

Fikadu Goshu (MBA, MSc.)
Entrepreneurship Development Center- Ethiopia
Lead Business Development Service Advisor, P-O-Box 675

Kefiyalew Gudu (MBA)
Commercial Bank of Ethiopia

Abstract

The study tries to assess branch performance in commercial bank of Ethiopia by mixed research method using documentary analysis for the period of 2009/10 to 2014/15 fiscal year and collecting primary data from operational staff operating of Gida Ayana branch. The result of documentary analysis shows that the performance of the branch is high in deposit mobilization relative to loan disbursement. The performance analysis of the branch shows that the ratio of liquid asset to total asset is 4.3 percent. The loan to deposit ratio of the branch is less than one percent. The return on asset shows a declining trend indicating the branch is better in the financial soundness on the bank risk bearing capacity and in the ability to perform liquidity transformation. The amount of non-performing loans analysis shows a declining trend indicating the branch is efficient in the performance of nonperforming loan collection. The study from the survey result shows that internal management system, external business environment and bank rules and regulation affect the performance of branch. The employee knowledge about bank management system, information sharing system, training, electric power interruption, electronic payment system are also among other factors that affect branch performance. The correlation between rapid expansion of electronic payment system and owing of sound knowledge about bank management and that of internal organizational management factors and regularly informing on new systems affects positively branch performance at statistical significance $p < 0.01$. Correlation of rapid expansion of electronic payment system with internal organizational management factors and with regularly informing on new systems, and internal organizational management factors and possession of sound knowledge about bank management shows positively affect branch performance at statistical significance $p < 0.05$. Managements and decision makers has to make any adjustment in the areas of loan disbursement, in the development of uniform information sharing mechanism and provision of refreshment training in the areas of customer management.

Keywords: bank, performance, liquidity, loan growth, capital adequacy, Gida Ayana

1. INTRODUCTION

1.1. Background of the Study

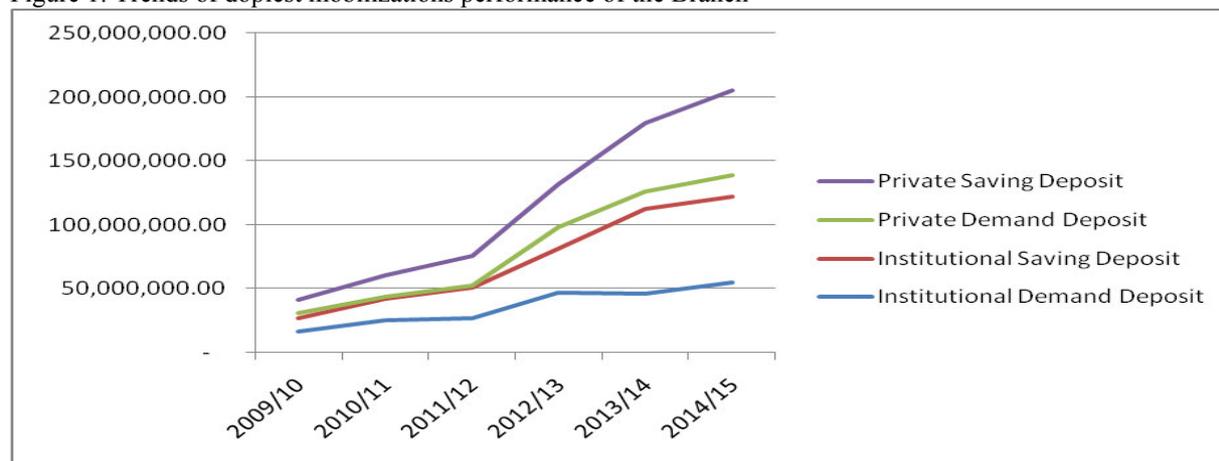
As the prime movers of economic life, banks occupy a significant place in the economy of every nation (Olugbenga & Olakunle, 1998). Commercial banks are quite important in an economy as intermediaries as they channel funds from depositors to investors continuously (Lukorito, Muturi, Nyang'au, & Nyamasege, 2014). Commercial banks provides information services, liquidity services, transaction cost services, maturity intermediation services, money supply transmission, credit allocation services, and payment services to the economy (Cornett & Tehranian, 2004). Failure to provide these services provision can be costly to both the ultimate sources (households) and users (firms) of savings, as well as to the overall economy. The affect of a disruption in the provision of the various services on firms, households, and the overall economy when something goes wrong in the banking sector makes a case for the need to investigate factors that affect these performance are important (Cornett & Tehranian, 2004). Performance measurement systems in commercial banks are considered to be important for evaluating the accomplishments of firm goals, constructing strategies for growth and development, making decisions for investments and compensating employees. Studies have investigated that banks' performance is measured by using variety of approaches. It can be used balanced scorecard method to measure business performance. The balanced scorecard method includes both financial and nonfinancial measures such as institutional learning process, growth, internal business processes, customer employee satisfaction etc (Tekere, Tekere, & Kent, 2011).

Despite, banks have vital role in economic development through engaging in an intermediary role that enhances investment and growth (Tesfaye, 2014) in the economic growing trends of Ethiopia, the share of banking sector (financial intermediary) to Gross Domestic Product of Ethiopia is about 2.7 percent in the fiscal year 2008/0 (NBE, 2009). Since 2007/2008 fiscal year, commercial banks have reduced their loan disbursement due to loan disbursement restriction. However, loan disbursement have significant impact on the overall performances of a given bank as lending contribution to asset and income portfolio is very high in the banking industry. Policy that affects lending through loan restricting is likely to have great impact on the performance of banks (Seyum, 2010). Restriction on bank lending affects banks performance through reducing bank operating income which is generated

by interest on its loans that represented more than half of commercial banks' operating income (Olugbenga & Olakunle, 1998). Also, credit allocation regulations of bank that supports lending to socially important sectors such as housing, farming, and small business is another factor that subsidize branches accessible to the project and affect performance branches that lack such opportunities. The decline in bank loan provision is being the major factor that affects commercial bank performance (Seyum, 2010). The overall performance of Commercial banks of Ethiopia is the cumulative of services provided at each branch level. Gida Ayana branch is among branches with senior in years of establishment that works on different activities of the banking sector.

Among the main activities of the banks, saving represents one of the most predictable determinants of successful personal and economic development. Commercial bank of Ethiopia accommodates saving deposit and demand deposit that are deposited by the house hold (private) and institutions. Household saving is a form of internal capital accumulation in a country and can fundamentally be used to define a given country growth. Government and businesses can use household saving as their sources of fund through borrowing from the banks. The documentary analysis of the branch reveals that institutional saving deposit is the major source of saving followed by institutional demand deposit with the lowest amount being private demand deposit. Also, around 64 percent of annual average was institutions deposit mobilized whereas 36 percent of the saving deposit mobilized from individual households. Moreover, analysis of branch performance shows that on average 58.4 percent of the deposit mobilized was saving deposit whereas 41.6 percent is demand deposit in the last six years. Also, there is fast growth in the level of private saving deposit followed by private demand deposit and the institutional demand deposit being the least in the trends. Thus, the performance of the branch reveals that more than half of the deposit mobilized is saving deposit that bears interest and adds cost to the branch operation as shown by the following figure.

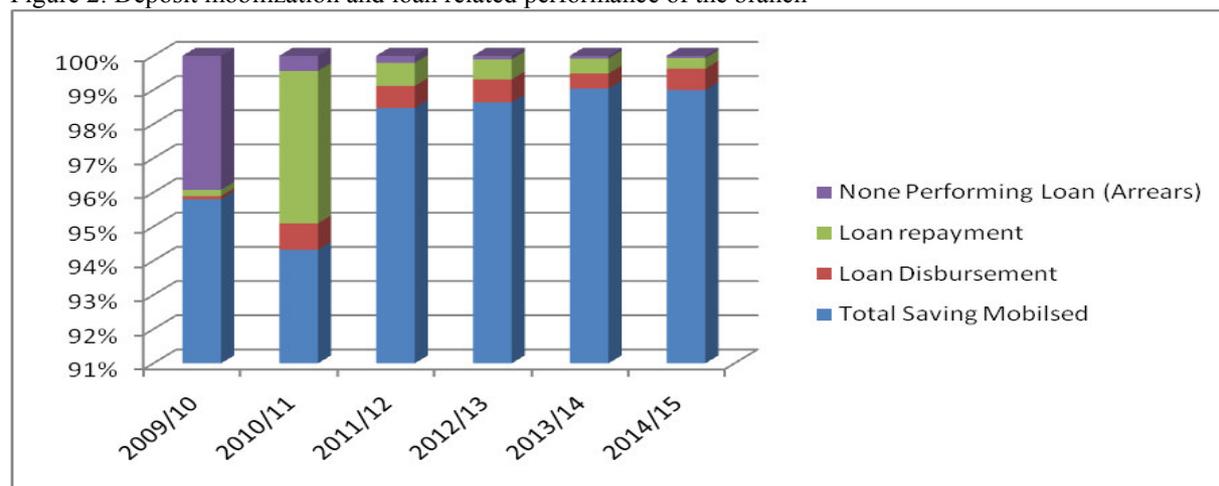
Figure 1: Trends of deposit mobilizations performance of the Branch



Source: Own computation based on six years data of branch, 2016

Lending is another the principal business activity of commercial banks with loan portfolio which is the largest asset and the predominate source of revenue for banks. The restriction in bank loan provision is the major factor that affects bank performance of the branch. The performance of loan disbursement relative to the amount of deposit mobilization performance of the branch is very low. The reason behind the low level of loan disbursement performance relative to the growth of deposit mobilization performance of the branch may be as stated by (Cornett & Tehranian, 2004) due to the policy discrimination and restriction of the commercial banks in the loan disbursement privilege for the priority sectors like exportable items (coffee and sesame), manufacturing items, industrial products and agricultural investments under the jurisdiction of branch operational area. The restriction on bank lending affects banks performance through reducing bank operating income which is generated by interest on its loans that represented more than half of commercial banks' operating income. The loan disbursement performance of the branch shows an increasing trend from the year 2009/10 to 2004/15. Also, the loan repayment status of the branch shows an increasing trend for the same period. Analysis of six year performance of the branch shows the amount of saving mobilized is by far greater than the amount of loan disbursed by the branch indicating that saving mobilized by the branch was not fully used for loan disbursement. From this, one can predict that the branch is holding huge amount of saving and pays an interest expense for the saving that was not channeled for loan as shown by the following figure.

Figure 2: Deposit mobilization and loan related performance of the branch



Source: Own computation based on branch data, 2016

The amount of nonperforming loan (principal and interest fall in arrears) shows a declining trend indicating the branch is found in a good position in loan repayment implying the branch is efficient in loan repayment collection performance. Non-performing loans are loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract. It follows that any loan facility that is not up to date in terms of payment of both principal and interest contrary to the terms of the loan agreement, is non-performing. The amount of non-performing loan measures the quality of bank assets. Non-performing loans can lead to efficiency problem for banking sector. Large bad loans portfolios will affect the ability of banks to provide credit and could result in loss of confidence on the part of depositors. In line to the above facts, the amount of branch non-performing loan shows a declining trend indicating the branch is efficient in loan collection performance. Thus, this study tries to analysis factors that affect of Gidda Ayana branch performance.

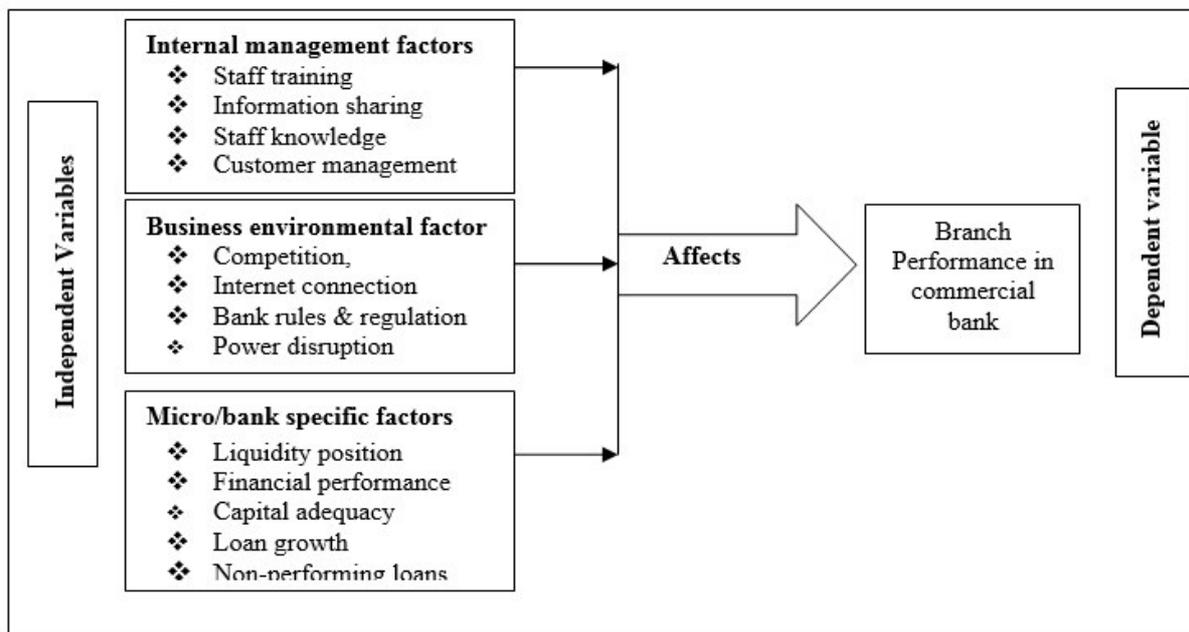
1.2. Statement of the Problem

Most of the time, factors that affect commercial banks' performance are broadly categorized as internal and external factors (Choong, Thim, & Kyzy, 2012; Sehrish & Zaman, 2011). Internal factors are mainly influenced by a bank's management decisions and policy objectives whereas external factors focus on industry related and macroeconomic variables reflected in the economic and legal environment where banks operate (Kijjambu, 2015). The internal determinants of bank performance include both financial statement indicators derived from balance sheet and income statement in published annual reports, as well as other internal indicators, which have no direct relation to the financial statements of a bank (Choong, Thim, & Kyzy, 2012). Most of the research works done by different researchers were not following the regulatory standards in identifying internal factors that affect the performance of commercial banks. Moreover, some of the research works in Ethiopia has been considered variation in interest rate as a factor that affect the performance of banks (Tsfaye, 2014) where the minimum deposit rate as well as the lending interest rate was set by the regulatory organ for commercial banks. Hence, this study tries to examine the effect of internal management factors to the bank, bank specific factors and business environmental factors that affects the performance of Gidda Ayana branch.

2. CONCEPTUAL FRAMEWORK OF THE STUDY

Most of the researchers use financial measures, internal management system of the bank and by the customer management strategies for measuring bank performance. Factors like prevailing competition with other banks, internet connection facility, existing bank rules and regulation and electric power disruption are some of business environmental factors which affects performance of banks. Also, micro economic factors that are bank specific and affect the performance of commercial bank are capital adequacy, size of bank, loan growth and nonperforming loan that the specific bank branch operates (Athanasoglou, Brissimis, & Delis, 2005). Other researchers use Return on Equity and Return on Assets percentage change in earnings per share as benchmark to measure performance of the banks (Choong, Thim, & Kyzy, 2012; Ameer & Mhiri, 2013). The financial measures of bank performance reflect different operating characteristics of banks. The popular categories include capital adequacy, asset quality, managerial efficiency (often used as a proxy for management quality), earnings (or profitability), and liquidity that are derived from financial ratios (Athanasoglou, Brissimis, & Delis, 2005). Apart from financial information, internal management system of have been incorporated into the analysis of bank performance. Therefore, based on the above concepts, the conceptual frame work of this paper is developed as follows:

Figure 3: Conceptual frame work of the study



Source: Own compilation based on literature, 2016

3. DATA SET AND METHODOLOGY

3.1. Description of Variables and Method of Analysis

The study used mixed methods research approach by combining documentary analysis and in-depth interviews using structured questionnaires. This study tries to see the performance of bank branch using documentary analysis in terms of liquidity of banks measured by liquid assets to total assets ratio, loans to deposits ratio, financial performance, capital adequacy, loan growth, and non-performing loans for the period of 2009/10 to 2014/15. The variables used in the primary data collection are based on a thorough literature review that captures internal to the management of the bank, business environmental factors and bank specific factor that affect the performance of the banks sector.

1. Liquid assets to total assets ratio (L1): liquidity is the ability of banks to fund increases in assets and decrease in liability without affecting their day to day operation or incurrence of unacceptable losses. Liquid assets to total assets ratio give us information about the general liquidity shock absorption capacity of a bank. As a general rule, the higher the share of liquid assets in total assets, the higher the capacity to absorb liquidity shock, given that market liquidity is the same for all banks in the sample. Nevertheless, high value of this ratio may be also interpreted as inefficiency. Since liquid assets yield lower income, liquidity bears high opportunity costs for the bank. Therefore it is necessary to optimize the relation between liquidity and profitability and is measured by:

$$L_1 = \text{Liquid Asset} / \text{Total Asset} \dots \dots \dots \text{Eq (01)}$$

2. Loans to deposits ratio (L2) relates illiquid assets with volatile liabilities and indicates what percentage of the volatile funding of the bank is tied up in illiquid loans. The volatile funding includes deposits, interbank borrowing, certificate of deposit and short term borrowing from the central bank. Therefore the higher this ratio the less liquid the bank is. This ratio was used in order to check the robustness of the results in Liquid assets to total assets ratio. This was described by the following equation.

$$L_2 = \text{Loans} / \text{Deposit} + \text{Short term financing} \dots \dots \dots \text{Eq (02)}$$

3. Financial performance of banks: Profitability accounts for the impact of better financial soundness on bank risk bearing capacity and on their ability to perform liquidity transformation (Rauch, Steffen, Hackethal, & Tyrell, 2008). According to Popa et al. (2009), popular measures of bank performances are return on assets, return on equity, net banking income and the efficiency ratio (Popa, Mihalescu, & Caragea, 2009). Among these measures, the study adopted return on asset to measures the financial performance of banks as shown below.

$$ROA = \text{Net income before tax} / \text{Total Asset} \dots \dots \dots \text{Eq (03)}$$

4. Capital adequacy of banks (CA): Capital of banks is consists of common stocks plus surplus funds plus undivided profit plus reserve for contingencies and other capital reserves. There are two opposing theoretical views regarding to the relationship between banks liquidity and capital adequacy. These are financial fragility-crowding

of deposit hypothesis and risk absorption hypothesis (Diamond & Rajan, 2000). The first argument suggests that there is negative relationship between capital adequacy and bank liquidity whereas, the second argument is opposing to the first argument. This study considered the second hypothesis since it has been used by various empirical studies. The proxy for capital adequacy used was the ratio of equity to total assets as shown below.

$$CA = \frac{\text{Equity}}{\text{Total Asset}} \dots \dots \dots Eq(04)$$

5. Loan growth of banks (LG): Loans are considered as illiquid assets and generate higher revenue to banks leading of high performance in banks. Therefore, the increase in loan means increase in illiquid assets and decrease in short term/liquid assets. As it was made by various empirical studies as well as the above argument the study expected negative relationship between banks loan growth and liquidity. The proxy for loan growth was annual growth rate of gross loans and advances to customers.

$$LG = \text{Annual growth rate of gross loan/Advance to customer} \dots \dots \dots Eq(05)$$

6. Non-performing loans (NPL): Non-performing loans are loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract. This measures the quality of banks asset. Unlike other firms banks assets are composed of large amount of loans. If this loan is considered to be uncollectable, the effect is reduction in banks profitability and also make large number of depositors to fear and run against the bank. Therefore, it is expected that there is negative relationship between bank liquidity and the amount of non-performing loans. The proxy used for non-performing loans was the percentage of non-performing loans in the total amount of bank loan.

$$NPL = \frac{\text{Non performing loan}}{\text{Total amount of bank loan}} * 100\% \dots \dots \dots Eq(06)$$

Finally, for the primary sources of information, data collected from respondents by using structured questioner is checked, cleared and entered into SPSS version 16 software and analysis is done. Descriptive statistics of percentage and frequency are used to describe data obtained from the primary sources. The Spearman's rho correlation coefficient is used to check the intensity or strength of a relationship that provide succinct assessments of the closeness of a relationship among pairs of variables that are crucial for branch performance.

3.2. Source and Type of Data

The data used in the analysis are collected from both primary and secondary sources. The secondary data is collected through documentary review for the year 2009/10 to 2014/15) from un published organizational report. The study uses balance sheet ratios for compute financial ratios. Primary data is also collected using structured questionnaires from all branch operational staff (used population as a whole as the number is immaterial to use sample size determination) of for examining factors affecting branch performance in study area.

4. RESULTS AND DISCUSSIONS

The performance measurement systems in commercial banks are considered to be important for evaluating the accomplishments of banks goals, developing strategies for growth and development of the sector, making decisions for investments and compensating employees. First, the performance of the branch is analyzed using secondary data collected from branch annual report for the period of 2009/10 to 2014/15 and the followed by the analysis done using the survey result from self administered question.

4.1. Analysis of Branch Performance by Using Secondary Data

4.1.1. Liquidity Position of the Branch

Liquidity is the ability of banks to fund increases in assets and decrease in liability without affecting their day to day operation or incurrance of unacceptable losses. The study uses balance sheet ratios to compute liquidity of the bank. The ratios used for measuring performance of the branch liquidity position are liquid asset to total asset and loan to deposit ratio. Liquid assets to total assets ratio give us information about the general liquidity shock absorption capacity of a bank. The result of liquid assets to total assets ratio computed using equation 01 (table 1) shows that the liquidity position of the branch is above the total asset of the branch except for the 2010/11 fiscal year. On average, the ratio of liquid asset to total asset is 4.3 percent times to the amount of total asset in the past six years. The maximum liquidity position is attained in the year 2011/12 with the liquidity of 7.66 times total asset and then starts declining from 7.66 times total asset of the 2011/12 to 3.94 times the total asset in 2014/15.

Loan to deposit ratio relates illiquid assets with volatile liabilities. It indicates what percentage of the volatile funding of the bank is tied up in illiquid loans. The volatile funding includes deposits, interbank borrowing, and certificate of deposit. Therefore the higher this ratio the less liquid the bank is. This ratio was used to check the robustness of the results in liquid assets to total assets. The result of loan to deposit ratio computed by using equation 02 (table 1) shows that loan to deposit ratio is less than one. That is, the amount of deposit mobilized was

relatively higher than the amount of loan disbursement performance of the branch during the period under consideration. The average six years loan to deposit ratio is 0.56 percent. The implication of the result is that, on average, the branch was used less than one percent of the saving mobilized for loan disbursement. The percentage of the volatile funding of the bank tied up in illiquid loans is very small relative to the liability of the bank acquired through saving. The higher this ratio the less liquid the bank is. But, the ratio from the study is very low indicating the bank has high liquid asset than illiquid once. Thus, as this ratios are used to check the robustness, the branch is inefficient in liquidity management and handles vast amount of liquid asset.

4.1.2. Financial Performance of the Branch

Profitability accounts for the impact of better financial soundness on bank risk bearing capacity and on their ability to perform liquidity transformation (Rauch, Steffen, Hackethal, & Tyrell, 2008). The popular measures of bank performances are return on assets, return on equity, net banking income and the efficiency ratio. Among these measures this study adopted return on assets. The financial performance of described by return on asset of the branch is computed by equation 03 (Table 1) shows that the six year annual average of the return on asset of the branch is 1.79 percent. The return on asset of the branch is above 1 percent except for the year 2011/12 which is 0.96 percent. The return on asset for the branch is shows a declining trend with above 2 percent commencing from 2.33 percent in the fiscal year 201/13 to 2.14 percent of return on asset in the fiscal year of 2014/15. The decline on the return on asset is parallel with the decline with the liquid asset to total asset ratio as it measures the return generated from the liquid asset transformed to illiquid one. This is an indication that the branch is better in the financial soundness on the bank risk bearing capacity and in the ability to perform liquidity transformation.

4.1.3. Capital Adequacy of the Branch

Capital of banks consists of common stocks plus surplus funds plus undivided profit plus reserve for contingencies and other capital reserves (Diamond & Rajan, 2000). The computation of capital adequacy of the branch by equation 04 (on table 1) shows that annual average of capital adequacy of the branch for the last six year is 1.81percent. Similar to the return on asset, the capital adequacy of the branch is above 1 percent except for the year 2011/12 which is also 0.96 percent. The study have a positive relationship between capital adequacy and bank liquidity. In line with this, commencing from the fiscal year 20012/13 to 2014/15, the branch liquidity and capital adequacy are moving together. This is an indication that branch performance is efficient in the measure of capital adequacy in recent years than before.

4.1.4. Loan Growth of the Branch

Provision of loan is one of the major functions of banks by which banks create liquidity to the external public. Generally loans are considered as illiquid assets and generate higher revenue to banks leading to high performance in banks. An increase in loan means increase in illiquid assets and decrease in short term/liquid assets. The computed result of loan growth of the branch using equation 05 (described by table 1) shows the average annual loan growth for the last six year was 27.05 percent. The trends in loan growth of the branch are not smooth. The highest loan growth was achieved in the year 2010/11 with a growth rate of 91.87 percent. It shows negative growth, zero and positive loan growth within the past six years. As it was made by various empirical studies, the computed result shown the expected negative relationship between banks loan growth and liquidity. The negative loan growth by the branch is observed in the year 2013/14 with a declining loan growth rate of 12.5 percent from the loan disbursed during 2012/13 fiscal year of the branch operation. Despite, the various empirical studies expect negative relationship between banks loan growth and liquidity, the relation between branch loan growth and liquidity of the branch is not in line with existing literature as the branch is inefficient in loan disbursement growth as the branch loan disbursement is less than 1 percent of it deposit mobilized.

4.1.5. Non-performing Loans of the Branch

Non-performing loans are loans that are outstanding in both principal and interest for a long time contrary to the terms and conditions contained in the loan contract. The result of non-performing loan computed by equation 06 (described by table 1) shows that the maximum amount of nonperforming loan (4, 173.64%) was observed in the year 2009/10 while the lowest being 10.85 percent in the year 2014/15. The size of the non-performing loan of the branch relatively shows a declining trend during the period. The non-performing loan measures the quality of banks asset because if loan is considered to be uncollectable, then, it leads to reduction in banks profitability and make large number of depositors to fear and run against the bank. Before the implementation of business process re-engineering of the bank, the branch provides aggressive lending policy that leads to large amount loan portfolio outstanding with poor monitoring and evaluation practice. As a result, the amount of non-performing loan becomes extremely high as compared to the performance after the implementation the re-engineering. Thus, it is an indicator that the branch is efficient in the performance of non-performing loan collection.

Table 1: Performance measurements results of the branch

Performance measures	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Average
Liquid asset/total asset (%)	2.70	0.57	7.66	6.82	4.07	3.97	4.30
Loan to deposit ratio (%)	0.10	0.83	0.66	0.68	0.45	0.63	0.56
Return on asset (%)	1.14	1.89	0.96	2.33	2.28	2.14	1.79
Capital Adequacy (%)	1.14	1.89	0.96	2.49	2.28	2.10	1.81
Loan growth (%)	0.00	91.87	0.00	44.44	-12.50	38.46	27.05
Nonperforming loan (%)	4173.64	56.66	31.74	15.67	17.63	10.85	717.70

Source: Own computation based on data from branch annual report, 2016

4.2. Analysis of Branch Performance Using Primary Data

Bank performance is measured using financial measures like capital adequacy, asset quality, earnings, and liquidity that are derived from financial ratios of balance sheet and income statement. There are also business environmental factors like economic and legal environmental factors that affect bank performance. These factors help to identify problems of individual banks and to ensure banks' compliance with existing laws and regulations. Management quality is assessed using primary data collected from operational staff of the branch. The survey result was described as socio demographic characteristics, internal management factors, and business environmental factors respectively.

4.2.1. Socio Demographic Characteristics of Respondents

The socio demographic characteristics of the respondents includes age, sex, marital status, educational achievements and field of study of the respondents operating in the branch. The result of the survey shows that all of the respondents are male in gender out of which 69.2 percent of them are found in the age category of 15 to 29 years. The remaining 30.8 percent of the respondents are found in the age categories of 30 to 45 years. This is an indication that most of the employees of the branch are found in the age categories that are easily adapt themselves to the changing environment when trade. Also, study shows that 61.5 percent of the respondents are married whereas the remaining 38.5 percent of them are single as shown below.

Table 2: Demographic characteristics of the respondents

Characteristic	Variable	Frequency (%)
Age (in years)	15-29 years	9 (69.2%)
	30-45 years	4 (30.8%)
Marital status	Married	8 (61.5%)
	Single	5 (38.5%)
Educational status	Diploma	1 (7.7%)
	First Degree	12 (92.3%)
Field of study	Accounting	6 (46.2%)
	Management	4 (30.8%)
	Economics	2 (15.4%)
	Marketing	1 (7.7%)

Source: Own survey, 2016

Similarly, when the educational achievements of the respondents are concerned, 92.3 percent of the respondents reported that they have first degree whereas the remaining 7.7 percent of them are found at Diploma level. The study also shows that 46.2 percent of the respondents are attended accounting field of study followed by management that accounts for 30.8 percent. The remaining 15.4 percent and 7.7 percent of the respondents reported as they have been attended economics and marketing field of study respectively. The survey result also shows that the service year of the respondents ranges from 1 year to 16 years with the mean value of 5.31 years and standard deviation of 5.83.

4.2.2. Internal Management Factors

The reforms in the banking environment in Ethiopia have brought about many structural changes in the banking sector of the country (Amdemikael, 2012). The result of the study in relation to management aspects of the branch shows that the perception of branch employees reported as management aspect is one of the most important factors that affects performance of the branch. Among these factors, 38.5 percent of the respondents reported that internal management system of the branch affects branch performance followed by 30.8 percent of external business environment such as bank rules and regulation. Also, 61.5 percent of the respondents agree that the way branch staff serve key customers affect the branch performance whereas 38.5 percent of the respondents reported that the way branch staff serve key customer do not have any effect on the performance of the branch. This is in line with the work of (Anand, 2008) with the concepts of customer service strategies and customer management system which are the most important dimension on the success of customer relation management hinges.

Customer management implementations usually involve activities focusing on main customers,

organizing around customer management, managing knowledge that helps in customer service provision, and incorporating customer management-based technology. Also, when the attitude of employees' operating in the branch from the customer management point of view is considered, 30.8 percent of respondents reported that employee customer interaction, employee customer service strategies, and employee knowledge in rendering the services as per the need of the client equally affect the performance of the branch. The employee customer relationship management system of the branch is not as such significantly affects the performance of the branch. The survey result gives a clue for the branch management for the provision of equal emphasis on employee customer interaction, employee customer service strategies, and employee knowledge factors so as achieve the desired level of organization performance. Therefore this concepts of management applied by the employee of the branch is in line with existing literature that examine activities related to customer management and its effect on the organizational performance (Rahul, 2004) and thus, managing customer interests and serving the interest of customers is in line with the work of (Robson, 2013) which help banks to maintain the existing customers as truly representatives of the bank.

When employee knowledge, in the areas of bank management considered, 69.2 percent of the respondents reported as they have sound knowledge about bank management system whereas the remaining 30.8 percent of the respondents reported that they do not have sound knowledge. Also, 53.8 percent of the respondents reported that they are regularly informed on the new system or procedures that the bank applies in the areas of customer management where as 46.2 percents of the respondents are not regularly informed on new system or procedures that the bank applies.

Table 3: Internal management factor affecting branch performance

Characteristic	Variable	Frequency (%)
The most factors that affect branch performance	Internal management system	5(38.5%)
	External business environment	4 (30.8%)
	Rule, regulation and policy of banks	4 (30.8%)
The way staff serve key customers of the branch	Yes	8 (61.5%)
	No	5 (38.5%)
Factors that affect performance from customer management point of view	Employee CRM system of branch	1 (7.7%)
	Employee customer interaction	4 (30.8%)
	Employee customer service strategies	4 (30.8%)
	Employee knowledge in rendering service	4 (30.8%)
Having sound knowledge about bank management	Yes	9 (69.2%)
	No	4 (30.8%)
Regular training in areas of customer management	Yes	4 (30.8%)
	No	9 (69.2%)
Regular informing of new systems for employee	Yes	7 (53.8%)
	No	6 (46.2%)

Source: Own survey, 2016

Finally, the result of the study shows that it is only 30.8 percent of the respondents who are regularly involved in training in the areas of customer management whereas the remaining 69.2 percent of the respondents are not. Lack of any training in the areas of customer management have an influence the performances of employee that intern affects performance of the branch. As information is a power as well as a resource, for effective branch operational performance, the management of the branch and higher level officials has to arrange any system through which information is uniformly transferred for all of the operational staff. Also any training program in the areas of customer management and knowledge management issues has to be provided for the motivation and knowledge development of the employees that have crucial effect on job performance.

4.2.3. Business Environmental Factors

The task environment comprises environmental elements such as competitors, customers, legal and regulatory issues that are important in business environment. Business environment has strong contribution for the success or failure of the business. It emphasize on role of legal, regulatory and institutional frameworks. Among the major business environmental factors that contributes to the relatively for the poor performance of the banking sector in the study area is bank facility arrangement which accounts for 38.5 percent of the respondents reported that affect branch performance followed by internal human resource management system and manger employee interaction system which accounts 23.1 percent each. The queuing system of the branch is the least significant factor that affects the performance of the branch in the study area. From this, we can advise the management of the branch in order to give an emphasis on how to improve internal bank facility arrangements for improvements of the service of the branch.

The business environments influence business either by adding benefits or through increasing costs of operation to the institution. The business environment encompasses the prevailing computations, the development

of the infrastructures that are important to run the business and other pertinent conditions. The result of the study shows that 46.2 percent of the respondents reported that electric power interruptions is one of the most critical factor that affects branch performance followed by the prevailing computation with other financial institution at the rate of 30.8 percent. This is in line with the study conducted by (Amdemikael, 2012) that states the existence little & insufficient competition in the country's banking industry is a clear indicator of relatively poor performance of the sector compared to the developed world financial institutions. Also 15.4 percent of the respondents reported that existing bank rule and regulation affects the performance of the branch particularly on loan provision issues. The severity of internet connection problem is not as much affects branch performance as compared to the other critical business environments in the study area.

There are many bank specific factors that affect the performance of commercial banks in Ethiopia. The perception of employee on factors like capital adequacy, size and bank liquidity, loan growth and level of non-performing loan was gathered through structured questionnaires. The result of the study shows that 46.2 percent of the respondents reported that the low level of loan growth affects branch performance followed by capital adequacy that accounts for 30.8 percent. The non performing loan is the least factor that affects the performance of the branch. Also, in the banking industry, banks can get benefits either through technology or through marketing perspectives. Technological innovations play a crucial role in banking industry by creating value for banks and customers that it enables customers to perform banking transactions without visiting banking system on the queuing. Similarly, electronic banking has enabled banking institutions to compete more effectively in the global environment by extending their products and services beyond the restriction of time and space. Around 77 percent of the respondents reported that as electronic payment system affects branch performance whereas the remaining 23 percent of the respondents do not agree as the electronic payment system affects branch performance.

Table 4: Business environmental factors affecting branch performance

Characteristic	Variable	Frequency (%)
Factors affecting branch performance from internal organizational management point of views	Arrangement of bank facilities	5(38.5%)
	Internal HR management system	3(23.1%)
	Queuing system of the branch	2(15.4%)
	Manager employee interaction system	3(23.1%)
Factors affecting branch performance from business environment point of view	Prevailing computations with other banks	4(30.8%)
	Internet connection	1(7.7%)
	Existing bank rule & regulations	2(15.4%)
	Electric power interruption	6(46.2%)
Factors affecting branch performance from bank specific factors views	Capital adequacy	4(30.8%)
	Loan growth	6(46.2%)
	Nonperforming loan	3(23.1%)
Factors that most affects electronic payment system	Yes	10(76.9%)
	No	3(23.1%)
Factor most affects branch performance (For whom answer is Yes above)	Lack of legal & regulatory issues on it	2(20%)
	Security risk related to electronic system	4(40%)
	Lack of suitable ICT infrastructure	4(40%)
The range of services strategies that most affects branch performance	Any time banking	3(23.1%)
	Internet banking	1(7.7%)
	Any where banking	1(7.7%)
	Single window servicing	2(15.4%)
	Charge free banking	2(15.4%)
	Phone banking	2(15.4%)
	Electronic fund transfer	2(15.4%)

Source: Own survey, 2016

Moreover, 40 percent of the respondents reported that security risk related to electronic payment system and lack of suitable information communication infrastructure development affects the branch performance at the same level. It is only 20 percent of the respondents that agree on legal and regulatory issues of the electronic payment system affect branch performance. When we consider the range of the service strategies as a factor that affects the branch performance, it is only 23.1 percent of the respondents who are reported that any time banking service strategy most affects branch performance followed by single window servicing, charge free banking, phone banking and electronic fund transfer system each of them at a rate of 15.4 percent in the study area. Finally, it is only 7.7 percent of the respondents who are reported that internet banking and any where banking strategies are service strategies that affect branch performance in the study area.

4.2.4. Correlation Analysis

The idea of correlation is one of the most important and basic in the elaboration of bivariate relationships. Two

prominent methods for examining the relationship between pairs of ordinal variables are available- Spearman's rho and Kendall's tau the former probably being more common in reports of research endings. Correlation entails the provision of a yardstick whereby the intensity or strength of a relationship can be gauged. In order to provide such estimates, correlation coefficients are calculated that will vary between -1 and +1. These provide succinct assessments of the closeness of a relationship among pairs of variables. Thus, correlation provides information on the strength and direction of relationships (Bryman & Cramer, 2005). A matrix of correlation coefficients will be generated, as in table 5. This table includes both the levels of statistical significance achieved for each coefficient and the number of cases. Table 5 shows the output for Spearman's rho only. The strongest correlation is observed between rapid expansion of electronic payment system and tenure of sound knowledge about bank management (0.822) followed by the correlation between internal organizational management factors and regularly informing on new systems that affects branch performance (0.69 round up) at statistical significance $p < 0.01$ level. These are the highest among the five correlations. Thus, there is a tendency for better skilled internal organization management to be more productive in the areas of modern technology, knowledge improvement for employee and on the regularly transforming information on new system or procedures that assist performance of the employee.

Table 5: Spearman's rho correlation analysis

	Spearman's rho	Are they factors that affect branch performance	Rapid expansion of electronic payment system affects branch performance	Possession of sound knowledge about bank management	Regularly informed on new systems that affect bank performance	Internal organizational management factors affecting branch performance
Are they factors that affect branch performance	Correlation Coefficient	1.000	.133	.030	.225	-.280
	Sig. (2-tailed)	.	.664	.921	.459	.355
	N	13	13	13	13	13
Rapid expansion of electronic payment system affects branch performance	Correlation Coefficient	.133	1.000	.822**	.592*	.636*
	Sig. (2-tailed)	.664	.	.001	.033	.020
	N	13	13	13	13	13
Possession of sound knowledge about bank management	Correlation Coefficient	.030	.822**	1.000	.386	.580*
	Sig. (2-tailed)	.921	.001	.	.193	.038
	N	13	13	13	13	13
Regularly informed on new systems that affect bank performance	Correlation Coefficient	.225	.592*	.386	1.000	.688**
	Sig. (2-tailed)	.459	.033	.193	.	.009
	N	13	13	13	13	13
Internal organizational management factors affecting branch performance	Correlation Coefficient	-.280	.636*	.580*	.688**	1.000
	Sig. (2-tailed)	.355	.020	.038	.009	.
	N	13	13	13	13	13

** . Correlation is significant at the 0.01 level (2-tailed).
 * . Correlation is significant at the 0.05 level (2-tailed).

Source: Own survey, 2016

Moreover, the correlation between internal organizational management factors and rapid expansion of electronic payment system (0.64 round up), rapid expansion of electronic payment system and regularly informing on new systems (0.59), and internal organizational management factors and possession of sound knowledge about bank management (0.58) shows strong positive relationship on branch performance at statistical significance $p <$

0.05. The remaining variables of the correlations reported in table 5 are low in the result of correlation. The correlation between internal organizational management and factors that affect branch performance shows a negative relationship indicating as internal organizational management is improved, factors that affect bank performance are become reduced.

5. CONCLUSION

The study is guided by objective of assessment of factors affecting Gida Ayana branch performance using secondary and primary data collected from all operational staff of the branch. The documentary analysis of the branch performance achievements shows deposit mobilization the highest with the main major source of deposit for the branch being institutional followed by the private depositors. The loan disbursement performance and loan repayment performance status of the branch shows an increasing trends. The level of non-performing loan shows a declining trend indicating the branch is in a good position in loan repayment collections. However, the performance of loan disbursement relative to the amount of deposit mobilization performance of the branch is very low due to the policy priority and unbalanced focused of the commercial banks in the loan disbursement privilege for the priority sectors like exportable items, manufacturing items, industrial products and agricultural investments under the jurisdiction of branch operational area. The liquidity position of the branch is above the total asset indicating that the branch is inefficient on the liquidity position as the branch holds excess liquid asset. The loan to deposit ratio of the branch is less than one percent showing the bank branch used less than 1 percent of saving mobilized for loan disbursement indicating the branch is inefficient in the performance of liquidity measurement due to large volume of liquid asset.

The survey result reveals that 61.5 percent of the respondents agree that the way branch staff serves key customers affect the branch performance. Also, 69.2 percent of the respondents reported that they have sound knowledge about bank management system. Similarly, 53.8 percent of the respondents are regularly informed on the new system or procedures that the bank applies in the areas of customer management where as 46.2 percents of the respondents reported that they are not. Moreover, 69.2 percent of the respondents are not involved in any training in the areas of customer management that enhances the performances of the branch. The study shows that 38.5 percent of the respondents reported as bank facility arrangement affect branch performance. Around 46.2 percent of the respondents reported that electric power interruptions is the most external factor that affects branch performance. Finally from the bank specific factors, 46.2 percent of the respondents reported that the low level of loan growth affects branch performance. Around 77 percent of the respondents reported that electronic payment system affects branch performance through security risk related to electronic payment system.

The strongest correlation is observes between rapid expansion of electronic payment system and tenure of sound knowledge about bank management followed by the correlation between internal organizational management factors and regularly informing on new systems that affects branch performance at statistical significance $p < 0.01$. The correlation between internal organizational management factors and rapid expansion of electronic payment system rapid expansion of electronic payment system and regularly informing on new systems, and internal organizational management factors and possession of sound knowledge about bank management shows strong positive relationship on branch performance at statistical significance $p < 0.05$. The correlation between internal organizational management and factors that affect branch performance shows a negative relationship indicating as internal organizational management is improved as factors that affect bank performance are become reduced.

In principle, commercial banks play an intermediary role in the economic activities of a given country through provision of loan as the major functions of banks by which it creates liquidity to the external public. However, the study shows that the branch is inefficient in loan disbursement that services as a source of revenue for the branch leading the branch to work aggressively on deposit mobilization that incur interest cost for the branch indicating that the bank operates with excess liquidity that shows inefficiency in liquidity performance measurement standards. In order to be effective, it requires the involvement of the branch level and head quarter managements. Policy makers of the bank particularly in the area of loan disbursement procedures and loan priority areas setting designers needs policy amendments in loan related policy and procedures. Different loan products such as merchandizing loan and non priority sectors for branches that are not found in priority sectors like exportable items, manufacturing items, industrial products and agricultural investments has to be allowed. The management of the branch has to arrange any system for provision of new system or procedures of providing information transfer uniformly for all of the operational staff. Also training in the areas of customer management and knowledge management issues has to be provided for the skill development for the employee. To the end, the management of the branch has to arrange any mitigating mechanism in case electric power interruption so as to enhance branch performance.

Reference

Amdemikael, A. (2012). Factors Affecting Profitability: An Empirical Study on Ethiopian Banking Industry

- Unpublished master's thesis. Addis Ababa University. Addis Ababa .
- Ameur, G. B., & Mhiri, S. M. (2013). Explanatory Factors of Bank Performance Evidence from Tunisia. *International Journal of Economics, Finance and Management* , 2 (1), 143-152.
- Anand, S. (2008). Customer Relationship Management in Indian banks. *Journal of professional Banker* , 66-70.
- Athanasoglou, P. P., Brissimis, S. N., & Delis, M. D. (2005). Bank-Specific, Industry-Specific and Macroeconomic Determinants of Bank Profitability Working Paper 25. Greece : Bank of Greece and University of Piraeus.
- Bryman, A., & Cramer, D. (2005). *Quantitative Data Analysis for SPSS 12 and 13: A Guide for Social Scientists*. New York: Psychology Press.
- Choong, Y. V., Thim, C. K., & Kyzy, B. T. (2012). Performance of Islamic Commercial Banks in Malaysia: An Empirical Study. *Journal of Islamic Economics, Banking and Finance* , 8 (2), 67-80.
- Cornett, M. M., & Tehranian, H. (2004). An overview of commercial banks: performance, regulation, and market value. *Review of Financial Economics* , 13, 1-5.
- Diamond, D., & Rajan, R. (2000). Theory of bank capital. *Journal of Finance* , 100 (55), 2431-2465.
- Kijjambu, N. (2015). Factors Affecting Performance of Commercial Banks in Uganda -A Case for Domestic Commercial Banks. *International Review of Business Research Papers* , 11 (1), 95 – 113.
- Lukorito, N., Muturi, W., Nyang'au, A., & Nyamasege, D. (2014). Assessing the Effect of Liquidity on Profitability of Commercial Banks in Kenya. *Research Journal of Finance and Accounting* , 5 (19), 145-152.
- NBE. (2009). Annual report of National Bank of Ethiopia 2008/2009. Addis Ababa, Ethiopia.
- Olugbenga, O., & Olakunle, P. (1998). Bank performance and supervision in Nigeria: Analysing the transition to a deregulated economy: AERC Research Paper 71. Nairobi, Kenya: The African Economic Consortium.
- Popa, G., Mihallescu, L., & Caragea, C. (2009). EVA - Advanced method for performance evaluation in banks. *Economia Seria management Journal* , 12 (1), 268-173.
- Rahul, B. (2004). A Customer Relationship Management System to Target Customers at Cisco. *Journal of Electronic Commerce in Organizations* , 2 (4), 63-73.
- Rauch, C., Steffen, S., Hackethal, A., & Tyrell, M. (2008). Determinants of bank liquidity creation - evidence from savings banks. Working Paper. Gernmen.
- Robson, M. (2013). Customer Management and Organizational Performance of Banking Sector: A Case Study of Commercial Bank of Ethiopia Haramaya Branch and Harar Branches. *European Journal of Business and Management* , 5 (15), 54-62.
- Sehrish, G., & Zaman, K. (2011, March). Factors Affecting bank Profitability in Pakistan. *The Romanian Economic Journal Year XIV No.30* .
- Seyum, Z. (2010). Impact of reducing loan by Ethiopian banks on their own performance. Graduate School of Business Leadership, University of South Africa.
- Teker, S., Teker, i., & Kent, O. (2011). Measuring Commercial Banks' Performances in Turkey: A Proposed Model. *Journal of Applied Finance & Banking* , 1 (3), 97-112.
- Tesfaye, B. (2014). The Determinants of Ethiopian Commercial Banks Performance. *European Journal of Business and Management* , 6 (14), 52-62.