



**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF PUBLIC ADMINISTRATION AND**  
**DEVELOPMENT MANAGEMENT**

**Branch Banking Expansion: Opportunities and Challenges**  
**(The Case of Dashen Bank s.c)**

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## **ACRONYMS**

ATM-- Automated teller machine

BEP-- Branch Expansion Plan

CATS-- Customer Accounts & Trade Service

CE-- Cost of expansion

COM--Competition

DFID--Department for International Development

ECO--Economic

GDP--Gross National Product

GP--Government policy

HRM--Human resource Management

L--Leadership

LO--Location

MIS--Management Information System

NBE--National Bank of Ethiopia

NGO--Nongovernmental organization

POS--Point of sale

PWC FS-- Price water house Coopers Financial Service

ROA--Return on Assets

ROI--Return on investment

SMS--Short message sending

SWIFT--Society for Worldwide Inter-bank Financial Telecommunication

## **ABSTRACT**

*Opportunities and challenges of branch expansion practice expected benefits with an outlay of costs; the Dashen needs to manage it carefully as it was detrimental effect on its entire performance and profitability eventually. The types of data used were both primary and secondary as the research design employed was mixed-method (Qualitative and quantitative) approach. A questionnaire derived from prior studies and relevant literatures is completed by the target employees of Dashen bank. A total of 95 questionnaires were distributed to Dashen bank head office and Addis Ababa district area employees holding managerial & higher positions, of this is considered in the unit of analysis of this study. Descriptive methods were used to analyze the effect, relationship and significant level of selected opportunities (economic factors, government policy and leadership) and challenge factors (cost, location & competition) with the Dashen bank's branch expansion. The variables were banking branch expansion dependent variable and opportunities economic, government policy and leadership and challenging factors cost, location and competition are independent variables and confirms reliable fulfilling the minimum 70% requirement of Cronbach's alpha value. Analysis of this study, respondents agreed with the three opportunity factors (Economic, government and leadership) are positive impact on branch banking expansion of the Dashen bank However based on their level of rating, leadership role took the high-side followed by economic factors & government policies. Similarly, respondents had agreed that all the three challenging factors (economic, location and competition) have initially negative effects on expanding of the Dashen bank branches, with the leading factor as location followed by cost of expansions. It is highly recommended to pursue the momentum of committed management and strong strategic planning mechanisms for an effective branching of the Dashen Bank and to reduce the location problem the bank use preliminary study about the area and as much as possible the bank minimize branch costs.*

**Keywords:** *Branch Banking, Branch Expansion, Opportunities, and Challenges of Branch Expansion*

# CHAPTER I: INTRODUCTION

## 1.1 Background of the Study

Banks are financial institutions that act as a financial intermediary between the public they accept deposit and lending credit to borrowers. Banks are play a key role in improving economic efficiency by channeling funds from resource surplus unit to those with better productive investment opportunities; through this function they accept deposits from the public and in turn providing credits to potential business entities for investment & other activities that support economic growth. The main focus is deposit mobilization; achieving earning more deposit is critical they also help to facilitate trade and payment system by significantly reducing transaction costs and increasing convenience (Nordic Competition authorities, 2006).

Like all other business activities, banks aim to make profits and grow. Profitable banks contribute to the economy and are essential for the security & stability of the financial system. For a bank to be successful in the long term, planning and managing growth is very important. A successful bank does not grow by chance, but rather by executing a well-planned strategy related to selling products or offering services. Naturally, total asset growth is the source as more products or services are offered to customers.

The strategies to maintain growth in market share, to diversify assets & to widen deposit base, branch expansion is remained to be dominant for new account sales especially in developing countries where providing technologically supported banking services are not yet fully matured & convenient. Branch banking is the act of doing banking business at a location that is separate from the bank's main location. Many large & small banks use branch banking in order to extend the reach of their services to different locations in a community, state, or country (Ebisa and Andualem, 2013).

Berger & Young, (2000), on the other hand argued that operating a wide-ranging banking empire may reduce efficiency as senior managers stray into markets in which they have less core competence. Moreover, optimizing branch networks is notoriously challenging. Rarely does it

match the reality of the distribution of target customers on the ground, both in terms of actual branch location, or of the right types of branches in the right places (Lejre et al, 2009).

In developed nations where banking industry has reached maturity and overcome by technological innovations in the delivery of financial services, branch expansion in recent periods is slow (Ellinger, 2012). Despite the modest decline, the traditional branch remains nearly everywhere in many cities of the developed world (BANCO GRAPHY, 2012). Moreover, even as electronic channels continue to capture a greater share of transaction activity, they did not replace branches rather they can be an opportunities to reorient that channel toward higher-value sales activities at the branches (Marc Dellaert and Christian Dekoninck, 2012).

In developing nations, on the other hand, banking systems are under developed and challenged many factors including; low income levels, large informal sectors, inadequate infrastructures and low levels of financial literacy; weak contractual frameworks for banking activities, including weak creditor rights and judicial enforcement mechanisms; and political risk (especially in sub-Saharan African countries) (European Investment bank, 2013). In the recent stable macroeconomic and together with the recent reform momentum and strong economic growth in many countries, indicate well for further development of the banking system. Moreover, the on-going structural changes in the banking sector, working-age population growth, urbanization technological advances, increased labor productivity, investment improvements, are opportunistic factors to sustain growth and led in part to aggressive financial deepening, (McDonald, Calvin, and L. Schumacher, 2007)

Banking in Ethiopia play a significant role in the economy, banks are principal providers of funds in Ethiopia. In the past two decades, the Ethiopian banking sector has shown a rapid progress in terms of number of commercial banks, total assets, and capital over the last decade. Commercial banks in Ethiopia have been continuously growing & reporting profits of different magnitudes.

The Ethiopian banking system is considered as branch banking with the exception of one private bank called Zemen bank s.co, which applied a unit banking system. The supervisory bank, NBE, under its amended directive no. SBB/58/2014 permits banks to open branches after obtaining its prior authorization, and a bank authorized to open a new branch is required to commence

operation within six (6) months from the date of receiving approval. So, bank branch expansion policy in Ethiopia is not that much strict and it depends on the strategy that the individual bank would follow, their respective capacity to utilize opportunities and resource adequacy to expand (Mudaye Neway, 2014). In this respect, the commercial banks are widening their branch networks and increasing their outreach to remote areas (Mudaye Neway, 2014). According to National Bank of Ethiopia (NBE) report (2017/18), there were 4757 bank branches and 5564 operational in 2019; this figure has increased to 6628 since end of June 2020/21.

Dashen Bank was established as per the intent of the new policy and the Ethiopian investment code. It came into existence on September 20, 1995. Dashen is the most reputable brand in the domestic banking market; a reputation earned through consistent delivery of values and preeminence unmatched by its competitors. The Bank also works in partnership with leading brands in the electronic payments industry (American Express, VISA, MasterCard & Union Pay cards) and prominent money transfer operators (Western Union, Money Gram, Express Money, Dahabshiil, TransFast, EzRemit , FloCash & Dawit Money Transfer) [www.dashenbank.com](http://www.dashenbank.com)

Dashen bank the private owned bank, is the leading bank for the last 20 years in the Ethiopian private banking sector. The bank is model in the sector in introducing new bank products. It is also beginner to introduce modern banking to the country.it plays a catalytic role in the economic progress and development of the country. Moreover, Dashen bank is known to have country wide reach through its branch networks. In the recent five (5) and so years especially the bank has aggressively expanding its branch existence in every corner of the country; its total number of branches reached more than 500 as of June 2021 from 381 records in the year 2017/18.

The major objective of this paper is to show expansion trends of Dashen Bank, identify major available opportunities and challenges, and examine the respective impacts on future branch expansion decisions with possible recommendations for continued business growth of the bank under study and to the sector in general.

## **1.2 Statement of the Problem**

The determination of structured and effective branching policy is becoming an attractive research area due to the competitiveness of banking sector in many countries. Before banks planned to maximize the contribution from each branch, they need to understand the dynamics of the available market where it aims to serve. The branching policies banks used are vital factors for performance improvements (Kim and vale, 2001). This has been argued from the view of branches are the principal interface between banks and their customers.

In bank branch expansion strategy, however, there are so many factors that have been recognized by various studies. Operating bank service in very distance place may reduce efficiency as senior managers separated from the core bank into markets in which they have less core competence; as organizational diseconomies arise (such as agency problems in monitoring junior managers in a distant locale); and as distance makes providing relationship-based services to local customers more difficult. Geographic expansion by inefficiently managed banks may spread inferior management practices over a greater amount of resources (Calcagnini and Hester, 1999).

Kozo and Kazumine (2012) found out that focusing on local activities without expanding branch network is associated with improved cost efficiency. But, excessive branch expansion causes to lower cost efficiency. The level of adequacy is also remained an important factor to keep positive performance from expansion policy. The expansion of branches requires different physical resources like fixed assets, manpower etc. that have a potential to reduce the overall performance. So, the allocation of required resources to the right branch is a challenge that hugely influences performance. Moreover, having branches that are not aligned with the bank's focus objective would lead to reduced revenues & deposits, lower profits & poor customer satisfaction stemming from an inconsistent leadership experience (IBM report, 2010).

A study conducted by Kotak (2011) as cited by Ebissa and Andualem (2013) has concluded that branch expansions drive, was not help bank ramp-up deposit mobilization, as deposits and loans outstanding was continue to be concentrated in big urban markets. The researchers here indicate that the expansion of new branches imply the creation of additional losses which adversely affects profitability of a bank. Moreover, the rise of electronic transaction channels in banking has raised fundamental questions about the role of the traditional branch. Rising electronic channel availability is an opportunity to reorient that channel toward higher-value sales

activities. But, customers awareness and advancement level is a critical factor whether to restrict or not the branch expansion level (Strahan, 2002).

In Africa, the majority of the population has no access to banking service, with only 35% of African families having bank accounts. The limited access stems particularly from deficient infrastructure, physical geographical isolation or inaccessibility, financial illiteracy, all of which culminate into exceedingly high cost of providing banking service. Ethiopia, Uganda and Tanzania for instance, each have less than one bank branch per every 100,000 people compared to 100 in Spain (Ondiege, 2010).

In Ethiopia despite the prevailing progresses brought with the aggressive branch expansions across the country, the number of bankable society to the whole population is still very less. According to Teklebirhan (2008), Ethiopia still remains one of the under-banked economies even at sub-Saharan African countries standard in spite of the significant improvements. Per the annual report of NBE (2013), branch per population ratio has lowered to 39,000 people from its record of 117,474 as of June 2009 of same report.

Yirga (2017) has also commented that Branch banking is the most prevalent banking system in most countries of the world. Similarly the Ethiopian banking industry is also characterized with the expansion of branches to reach the unbanked part of the society and to enhance accessibility.

Almaw Workneh(2015) concluded that opportunities of branch expansion in the banking industry is profitable with a little cost and expense.

The expansion of branches is the major reason for the increase in loans, advances, and deposits so adequate levels of branch expansion have positive impacts on both cost and profit efficiencies (Hailu, 2014).

Berhanu Balcha (2015) concluded aggressive branch opening effort may help for profit maximization and using on ATM/POS machines is more advantageous and profitable.

This study aims at evaluating the key performance indicators of expansion trends of Dashen bank; identify major opportunities available for Dashen bank to make additional branches further & recognize the respective challenges to come across while expanding branches. A key

consideration is, therefore, to make sure that whether the bank has "a plan and potential for further expansions".

The researcher has been tried to assess the challenges and opportunities of branch expansion in banking industry in general and Dashen banks in particular. Thus, this study attempts to fill this gap and contributes to the literature on the branch expansion in Ethiopia. Therefore, the main purpose of this study is investigating the opportunities and challenges in the implementation of branch expansion in Dashen Bank and most of previous researchers concerned on more opportunities that initiate branch expansion and uses competition as an opportunity but there are challenges that hinder in branch expansion this research also shows the challenges for banking unbanked society in Dashen bank.

So the researcher indicates that in branch expansion increase accessibility and future profitability of the bank through collecting more deposit but on the other hand there is a challenge that hinders at initially in the branch expansion and previous researchers distributing questioners at branch level but the researcher collecting data from the respective body at head office specially branch operation department.

### **1.3 Research Questions**

The researcher has aimed at providing answers to the following main research questions.

- What are the trend and related performances of branch expansion in Dashen bank?
- What are the opportunities that initiate branch expansion of the Dashen bank?
- What are the major challenges that hinder the Dashen bank to expand branch banking further?
- What are the major contributions branching banks to Dashen bank and the society?

## **1.4 Objective of the Study**

### **General objective**

This study is to explore the major opportunities that enhance branch banking expansion and the challenges that hinder for the Dashen bank s.c experience. In line with the general objective, the following specific objectives are set.

### **Specific Objectives**

- To see the trend and related performances of branch expansion in Dashen bank.
- To assess opportunities that initiate branch expansion of the Dashen bank.
- To assess the major challenges that hinder the Dashen bank to expand branch banking further
- To assess the major contributions branching banks to Dashen bank and the society.
- Suggesting possible recommendations to maximize opportunities utilized & minimizes the identified challenges.

## **1.5 Significance of the Study**

Empirical evidence on role of physical bank branch expansion in the age of automation of the banking sector in Ethiopia is still poor. The study is timely in view of the role of financial liberalization, rapid branch openings, technological advancements, and economic growth, which are more likely to expand financial services outreach. This study seeks to investigate the likely opportunities impact on physical branch expansion of the Dashen bank and identify major challenges that the bank is facing. In light of the points suggested, therefore, the findings of the study were the following significance to the Dashen bank & different stakeholders.

Help the bank management to draw lessons which opportunity drives more in making branch expansions.

The study also great importance to the shareholders and management of the Dashen bank, it was adding knowledge in making effective branch expansion decisions.

The study can help authorities & policy makers to verify the concerns & observe policies and regulations to be improved so as to alleviate challenges of the sector.

The research findings would be used as a source for other researchers who would deal on this topic further in future.

## **1.6 Scope of the Study**

Banking and banking sector activities are broad issue. This paper did not try to assess the whole banking performance. Hence, the study is delimited to the assessment of branch banking expansion, major opportunities & challenges that affect performance specific to the Dashen bank. The expansion activity here refers the physical geographic expansion; branch organizations expanding to other locations within their home regions. The study examines opportunities and challenges that affect the expansion plan of the bank.

Also, trend of branch banking expansion effect on Dashen bank's deposit, market share and profitability is reviewed. The last six years, from 2016 to 2021, branch expansion and historical financial trends are considered in the study, with special emphasis on the latest six years performance because the banking industry is in progress and number of branches are expanded more than the last past years.

## **1.7 Limitation of the Study**

In conducting this research work, the researcher encountered with constraints of time and office work load as there were lots of day to day work place assignments to be executed during office hours. Identifying & accessing suitable books, journals and articles are also difficult and hence the use of internet as source of information has been invaluable. Besides, difficulty to obtain segregated financial data (revenues, expenses/costs, deposits, assets/loans and profitability) related to the yearly opened branches during the study period was the other challenge faced by the researcher and it has been time taking. But, maximum effort were made to tackle these problems by handling all the activities as per the schedule set in the proposal before and by contacting the management and key responsible persons and busyness of the key informant groups has forced the researcher to cancel lots of appointments and it took longer than expected time for the completion of the research.

## **1.8 Organization of the Study**

This study was attempted to analyze Branch Banking Expansion: Opportunities and Challenges. Accordingly, it should be organized in five chapters. The first chapter introduces the Introduction of the study, statement of the problem, basic research questions, objectives, significance, and delimitation, definition of terms and organization of Chapters. The second chapter addresses the detail review of theoretical, empirical and conceptual literatures on concept of branch expansion and its opportunities and challenges. It also explains the theories and concepts of banks. The third chapter presents the methodology which should be used in the study and the fourth chapter about results and discussion and the final chapter five about summery of conclusion and recommendations.

## **CHAPTER II: RELATED LITERATURE REVIEW**

### **2.1 Theoretical Review**

The world banking industry has increased rapidly over the last two and three decades with the changes of both the structure and innovations in the financial service delivery. The growth of electronic and mobile banking industry is additionally the access points provided through automated teller machines have increased some financial services provided remotely. But in recent innovations that have reduced branch reliance on traditional businesses serving customers in a building as contrasted to an online business and the number of bank branches has continuously increase over time since 1990s (Dellaert and Dekoninck, 2012).

The global financial industry is rapidly changing and more competitive. The last few decades, around the world the banking sectors are gone rapid changes in terms of financial globalization and technological competition The importance of financial services such as commercial banks are supporting for socioeconomic development of some countries without isolating from developed and developing countries banks have shown significant role in the development and growing of economy by allocation of resources well as efficient utilization. But the banking industry in low income countries are generally is not performing efficiently and adequately (Khalil et al, 2014).

#### **2.1.1 Definition**

Branch Banking is the most dominant banking system in the globe and branch banking is engaging in banking as accepting deposits and making loans to customers (investopedia (2012),. Under this system bank has the number of branches in different parts of the country and it may within large cites (Jhingan, 2004).

Bank is a financial institution that lends or invests money to its customers/investors, and works as a financial intermediary between the investors who are from surplus money(depositors) and the investors who are borrow those money to cover the investment need or borrowers/debtors (Albertazzi and Gambacorta, 2010 as cited in Aladwan, 2015).

The growing demand of economy forces for expansion of government and private banks are compete of resources to achieve the growing liquidity requirements of the economy. The demand

for credit, which is high, expected to further increase with the continued high economic growth, which calls for an enhanced effort to mobilize resources banks as financial broker between depositors and borrowers involving in the country economy. Banks are financial institutions but they are different from other financial institutions because they offer deposit and loan products (Hoffmann, 2011).

Ethiopian financial institutions especially banks are characterized highly profitable, concentrated and moderately competitive. Recently banks in Ethiopia case are competing in terms of service quality, branch network expansions, efficiency, profitability, advertising and prices put in order of their significance but compared to other developed countries service is high and moderate compared to our country Ethiopia (Eshete, Teshome, and Abebe, 2013).

Banking in practical and theoretically states that conducting banking operations at two or more areas located at a center is called head office. The head quarter is controlled by board of directors and branches are located in the same city and across the country.

### **2.1.2 Branch Models**

According to (PWC FS Viewpoint, 2012)4.the major and the leading banks are used the five emerging branch models this models are selected to target customers in the market. The increasing the banks geographic existence is to customer needs, profit opportunities and cost to achieve the growth of banking industry.

The five models are;

- Full-service branches—Branches they provide face to face interactions and one stop banking sales and services for retail and business customers. There should be rare full services branches in the future and that will be technologically advanced with features such as video capabilities, back office mechanization and reconfigured office designs to better balance transactions relationship building and sales.
- Assisted self-service branches—they provide to retail and small business customers on the go with high function information and services on computer screen and only one employee is needed and assists with kiosk functionality.

- In-store and corporate branches— Provide convenient access for busy customers who want simple transactions and account sales where they shop and work. These streamlined branch locations include grocery stores and corporate office buildings.
- Community centers—provide a customized experience based on the local community they serve. They have a smaller footprint than traditional branches. Employees know their customers by name, are engaged in community events, and even host networking sessions supporting local businesses at the branch.
- Flagship stores—Deliver sales and advisory expertise while showcasing emerging capabilities to sophisticated customers

Not all models work for all banks. Adopting a combination of branch models based on target customer segments in the local market as well as the bank’s strategic goals are the most effective strategy (PwC FS Viewpoint, 2012).

### **2.1.3 Branchless/Unit Banking**

In the United States and other developed economies, branchless banking is usually associated with the use Of ATMs and the Internet as alternative channels for accessing financial services. Branchless banking becomes transformational when it aims to extend services to previously unbanked or underserved customers. Branchless banking models can be additive or transformational Additive models adds to the range of choices or enhances the convenience of mainstream financial institutions ‘existing customers. Technology has been an important driver in facilitating branchless banking because it enables banks to link with customers through a card-based, mobile phone-based, or other ICT-based device in real-time at affordable prices. Depending on the telecommunications infrastructure, each transaction is electronically recorded, authenticated, and settled within minutes or at most within a day. The main challenge, however, remains how to establish and maintain a viable agent network (FS Knowledge Sharing, 2010).

In emerging economies, which are characterized by limited telecommunications infrastructure and difficult-to-reach rural areas, banks and other players have adopted innovative alternative approaches to branch-based banking to extend convenient, secure, and affordable products and services to under-served clients (UK Department for International Development [DFID], 2006).

### 2.1.4 Branch Banking Vs Unit Banking Systems

The difference between branch and unit banking according to their argument the advantages of branch banking, which are the objections rose by the advocates of branch banking against unit banking, are main points that distinguish them (Radhashami and Vasudran, 1995).

objections to branch banking raised by proponents of unit banking system; which can be summarized as follows.

Ser No.	Arguments for branch banking by advocates of branch banking	Objections against branch banking by proponents of unit banking
1	Branch banks as compared to the unit banks can provide better facilities to their customers because of the comparability limited number of customers per banking offices and because of the efficiency achieved through large scale operation.	The failure of a bank with a large number of branches spread all over the country will have wide repercussions throughout the country.
2	Branch banks can increase mobility of capital, which brings uniformity of interest rates.	It could be difficult to exert a very effective control over all the branches when a bank grows beyond the optimum size.
3	Industrial & geographical diversification of loan risks can be possible in case of branch banking.	Branch managers will be transferred too frequently and so would be liable to be unsympathetic with local needs.
4	It would not be necessary to maintain large amount of idle cash reserves at any particular branch; whenever, any help is required by any branch, the resources of	Decision making takes long process; since the branch managers have to refer each &

	Other branches can be transferred to that particular branch.	Every decision to the head office, delay and red-tapism are but natural.
--	--	--

5	Remittance facilities can be provided to customers cheaply because intra-office indebtedness can be more easily adjusted than inter indebtedness.	The branch manager will have to get the permission of the head office to lend, which is totally ignorant of the borrowers.
6	Management can be made more efficient by proper staff selection, training and appointment of the right person in the right place. This advantage arises as a corollary to the economics achieved through large scale operation.	Market conditions are so localized than unit banking is more suitable.

Source (Radhashami and Vasudran, 1995).

### 2.1.5 Advantages Vs Disadvantages of Branch Banking

(Jhingan, 2004).described the rapid and wide popularity of branch banking system in the 20th century is due to various advantages. On the other hand explained & listed the limitations of branch banking; both can be summarized as follows.

Ser No.	Advantages	Disadvantages
1	Economies of large scale operation Large financial resources and wider geographical area coverage increases public confidence Funds will be available liberally & at cheaper rates	1. Problem of management Since the management of the bank gets concentrated at the head office, the branch managers can afford to be lax and indulgent in their duties and are often involved in serious irregularities while using the funds.

	<p>Division of labor could be introduced that insure grater economy in the working of the bank Highly trained and experienced staff can be retained</p>	
2	<p>Spreading of Risk Possibility of failure of the bank is remote as risk could be diversified. Losses incurred by some branches can be offset by the profits earned by other branches Large resource mobilization by branch banks increase the bank's ability to face crisis</p>	<p>2. Monopolistic tendencies Branch banking encourages domination and control of the banking system by few banks through their branch networks; this can lead to the concentration of resources into a few hands.</p>
3	<p>Economy in cash reserves</p>	<p>3. Lack of initiative Branch managers generally lack initiatives on important matters; they can't take independent decisions and have to wait for the clearance signal from head office.</p>
4	<p>Diversification in deposits &amp; assets</p>	<p>4. Regional imbalance The financial resources collected in smaller and backward regions are transferred to the bigger industrial centers; this encourages regional imbalances in a country.</p>

5	Cheap remittance facilities	5. Adverse linkage affects The losses and weaknesses of some branches also have their negative effects on other branches of the bank.
6	Uniform Interest rates	6.Inefficient branches The weak and unprofitable branches continue to operate under the protection and cover of the large and profitable ones.
7	Proper use of capital	7. Other defects
8	Better facilities to customers	8.Preferential treatment is given to branches near the head office
9	Banking access in remote/backward areas	9.Higher interest rates are charged in developed areas to compensate for the lower rates in the backward areas There will be concentration and unhealthy

		competition among the branches of different banks in big cities
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Source (Diffen, 2012).

### **2.1.6 Factors affecting the performance of Banking**

the determinants of performance of banks in to three aspects, as bank-specific, industry-specific and macroeconomic. According to Bourke, these three categories of performance factors are described in the following manner. The internal factors (bank-specific factors) are factors that are related to internal efficiencies and managerial decisions. Such factors include bank capital, bank size, asset quality, income diversification, liquidity risk and operational efficiency (expenses management). The industry specific factors are external factors which includes industry concentration or market share as major determinant factors of banks profitability. Finally, the macroeconomic factors which are external factors include GDP, money supply growth; government roles and inflation rate are the main one (Bourke , 1989) (as cited in Scott and Arias, 2011).

## **2.2 Nature of Branch Banking in Developed & Developing Countries**

In developed nations where banking industry has reached maturity and engulfed with technological innovations in the delivery of financial services, branch expansion in recent periods is slow. The decline this regard is primarily due to mergers and consolidations (Ellinger, 2012). A study by ‘BANCO GRAPHY’, in America & Europe, stated that after many years of net increases, branch closes outpaced branch opens in 2010 and 2011, and the total inventory of branches has declined from its 2009 peak. While this may appear to be a rational industry response to a decline in consumer preferences for the branch, the reality is that the overwhelming majority of those reductions were merger related. Despite the modest decline in branch counts in the recessionary years, the traditional branch remains nearly ubiquitous in many cities of the developed world (BANCO GRAPHY, 2012).

Moreover, even as electronic channels continue to capture a greater share of transaction activity, they did not replace branches; there are many reasons why branches still matter according to financial institutions should view the migration of transactions to electronic channels not as a

threat to the branch, but as an opportunity to reorient that channel toward higher-value sales activities. Furthermore, the combination of reduced staff requirements and new technologies can enable smaller, less expensive branches, rendering more locations viable for expansion and allowing institutions to provide the convenient access consumers want and demand (Marc Dellaert and Christian Dekoninck, 2012).

In developing countries, on the other hand, banking systems reflect a combination of factors, including the small absolute size of banks and banking systems; low income levels, large informal sectors, inadequate infrastructures and low levels of financial literacy; weak contractual frameworks for banking activities, including weak creditor rights and judicial enforcement mechanisms; and political risk (especially in sub-Saharan African countries), and hence financial and banking systems were remained underdeveloped, according to a study by (European Investment bank, 2013). However, the relatively recent stable macroeconomic and financial environment, together with the current reform momentum and expected strong economic growth in many countries, bode well for further development of the banking system. Moreover, the on-going structural changes in the banking sector, working-age population growth, urbanization, technological advances, increased labor productivity, investment improvements, has sustained growth and led in part to aggressive financial deepening, while financial sector development has also played a significant supporting role in the growth process (McDonald, Calvin, and L. Schumacher, 2007).

## **2.3 Opportunities and Challenges for Branch Banking Expansion**

### **2.3.1 Opportunities**

Expanding your business means paying for more space, people and inventory in many instances, but it also means potential for increased revenue and profits. The growth in physical branches is all the more striking in that it occurred during a period of rapid technological advances that would appear to have diminished the need to use branches. However, over time, bank branches have proven to be a highly effective and beneficial distribution channel according to a study by especially in developing countries of the world (Federal Deposit Insurance Corporation FDIC, 2004).

**Changes in bank branching laws led to structural shifts in branching;** – Historically, a number of states had significant restrictions on branching. Gradual easing of these laws occurred on a state-by-state basis. As a result, branching increased rapidly as banks sought to simplify their structure by consolidating multi-state and multi-bank operations into branches and then began to expand their branch networks under the new, relaxed rules. Moving towards universal financial inclusion should be both a national commitment as well as a public policy priority for any country (European Journal of Business and Management, 2012).

**Branching, when well executed, appears to improve performance;**- Bank branches are costly, so noninterest costs are higher for banking organizations operating multiple branches versus companies with a single office. However, banking organizations with larger branch networks generally have much higher non-interest revenue, and as a result, have better efficiency ratios. Improved efficiencies are reflected in higher overall profitability for multi-branch banking organizations. Branches help to expand performances by supporting the development of clients ‘businesses and increasing their wealth through offering a comprehensive range of up-to-date banking products and services. In all these cases, bank’s leadership and strategy are its most valuable assets

**Favorable economic and demographic trends encourage branching in certain markets;** – economic vibrancy of a community and demographic patterns also appear to be important drivers of branch formation. In particular, population growth and employment growth are the most highly correlated economic drivers also see big opportunity for banks to expand their branches (Management Centre Europe, 2012).

**Fast growth of the middle class;** Strong growth in the young urban educated population results in an important increase of Consumer Lending, both for housing and personal loans. We observe a fast-growing portfolio with relatively high yields and good risk indicators in countries like India, Russia, Turkey and selective African countries.

**Small and Medium Enterprises (SME) Growth;** SME is the driver for economic growth there by enhances banks expansion. Offering services to SMEs is a key opportunity for economic growth. Often these companies are too large for micro-financing and too small to obtain loans from international institutions (funding gap), and hence are good opportunities for local banks to expand.

**Government Roles in Creating Access to financial services for the 'un-banked';** In places like Africa and India, a high percentage of the population lives in rural areas not meeting the qualifying criteria to open a bank account. In these countries, the governments, together with central banks, are setting up programs for regulatory reform, liberalization, and modernization of the banking industry. The focus is on payment systems, settlement and clearing to support economic growth, thereby contributed for branching decisions.

In summary, major opportunities for branch expansion can be elucidated as Economic factors, government policy/commitments, leadership quality, strong population & employment growth, competitive environment for betterment etc. This is in line with the study conclusion in research journal (Meesrichan & Wannoo, 2014).

### **2.3.2 Challenges**

Recent innovations in the delivery of retail financial services have raised questions about the role of bricks-and-mortar branches in the banking industry. The adoption of multichannel banking and cost advantage of self-service channels has eroded the dominance of bank branches (Cracknel, 2005).

Given these trends, In addition, sees five major challenges for retail and corporate banks expansion around the globe (Management Centre Europe MCE, 2012).

**Increased competition and expansion;** Prepare for new players entering local markets - expand in new geographies with relevant customer value propositions and increased cost of regulation challenges business expansion prospers.

**Keeping customers loyal in a multi-banking environment;** It become and remains the customer's bank of choice in times of decreasing customer loyalty. Customers are sensitive to improved services & products and the chance of switching their preference is highly dynamic.

**Investing in the right technology;** Invest in technological innovation to achieve or maintain leadership in a fast changing market place is difficult. Apart from high cost of acquisitions, technologies now a day obsolete frequently.

**Ensuring profitability;** adapt the operating model to ensure efficiency and profitability while making expansions takes long periods & conscious management, which is highly inadequate due to the frequent turnovers owing to intense competitions too.

**Managing risk through the economic cycle;** focus on sustainable growth while managing risk and complying with international requirements and new regulations. The trend toward fewer charters and the need for sophisticated risk-management techniques is costly.

**Capital Requirements;** - A drawback of business expansion is that when a company invests money and other resources to expand, it has less capital available for other business transactions. This makes it especially important that you carefully weigh the market potential of expansion before making the investment.

**Location convenience remains preeminent in institution selection;** - As noted previously, the branch remains the near exclusive channel for new account openings. This is not just because institutions have mandated that, or have failed to provide alternate channels for account opening. Rather, the continued dominance of the branch channel for account opening seems to reflect the simple fact that consumers like branches at their convenience. However, inadequate infrastructure, required facilities unavailability, awareness level of the society coupled with its settlement nature of the population hinders potential branch expansions (MCE, 2014).

## **2.4 Branch expansion**

According to Hurtle (2007),

*“Recent innovations in the delivery of retail financial services have raised questions about the role of bricks-and-mortar branches in the banking industry. The advent of Internet banking, the proliferation of automatic teller machines (ATMs), and the increasing reliance on centralized call centers, combined with post-merger pushes for efficiency, all seemed to challenge the traditional branch method of delivering banking services. Yet the number of full-service branches in the United States has increased steadily since the early 1990s.”*(P 28).

The rising popularity of alternative banking channels has failed to discourage lenders from setting up brick-and-mortar branches across the country (Chakraborty, 2013). Large branch networks offer the convenience of many possible points of contact with the institution and the ability to avoid ATM surcharges and other usage fees by staying within the bank’s own network. The scope and scale of large branch network are qualities that many customers value (Hirtle, 2007).

Banks should form a convenient, dense network for their clients: people are in different places during the day and they should be able to find a nearby branch not only close to their homes but also close to where they work, shop and so on (Grzelonska 2005). A study titled „The Geographic Flow of Bank Funding and Access to Credit: Branch Networks and Local-Market Competition“ has found out that the number of branches in a county increases substantially the demand for both deposits and loans (Aguirregabiria Clark and Wang 2017).

In America, over the last two decades the number of branches has steadily increased from around 50,000 branches in 1990 to over 80,000 branches in 2010. This is somewhat surprising given how changes in technology, such as the growth of the internet and the increased use of mobile devices, have led the consumer culture to evolve over this time period in a way that would suggest that branches are less useful in attracting customers than before. Banks have also expanded their branch networks through mergers and acquisitions, and the industry as a whole has been gradually consolidating from around 12,000 banking institutions in 1990 to 6,500 institutions in 2010. As the number of banks has shrunk, and the number of branches has grown, this implies that the firms that remain in the industry are increasingly those firms with large networks of branches that often-times extend across multiple geographic markets. Thus local competition in banking frequently involves institutions that have branches in, and compete in, a number of other markets (Kuehn, 2014). Hurtle (2007) stated that despite technological and regulatory innovations that might have been expected to reduce banking institutions“ reliance on bricks-and-mortar branches to deliver financial services, the number of full-service bank and thrift branches has increased steadily since the early 1990s.

The pervasive availability of banks with large branch networks implies certain advantages to institutions that grow their networks. One source of the advantage is the role of branches in attracting consumers to a bank (Kuehn, 2014). By opening branches in various local markets with idiosyncratic risks that are not perfectly correlated, a bank can lessen the deposit and credit risk associated with its branch portfolio(Aguirregabiria Clark and Wang 2016).Furthermore, expanding into new market will produce efficiencies enabling banks to offer improved services at preferred prices (Evanoff and Fortier ,1986).

In Ethiopia banks“ branch expansion has positive association with better-off economic area and urban bias. A spatial analysis of financial access reveals that there are significant variations in

bank outreach across different regions of the country. Banking facilities are concentrated in the capital city of the country (Jarso, Rao and Ravi, 2015).

Continuous expansions in branch network in Ethiopia year after year imply the growth of competition. Despite the current progress in branch expansion, Ethiopia remains one of the under-banked economies even at sub-Saharan African countries standard (Eshete, Teshome, and Abebe, 2013).

## **2.5 Empirical Evidences**

Bank branches remain the major delivering vehicle of banking services (Soteriou & Zenios, 1997, p.4). and it's interesting to note that, despite the "hype" that branch delivery is dead, most customer still frequent the branch, where number of branches is increasing, including supermarket-based locations (called "in-store" branches) and kiosk-like branches (Frei et al, 1997, p.10 and Cracknel,2005).

Also emphasized that the branch is one of the most critical components of any savings product- they play primary role of distributing financial products and services. The branch is the place at which the product is delivered and through which promotions and customer interactions occur; the branch network is key in communicating the corporate brand (Dereli et. Al, 2011).

Orlow, Radecki and Wenninger (1996), as cited by Hirtle (2005). developed a series of proxy measures of performance and cost that they argue are likely to be correlated with branch network performance, in particular, to collect deposits; all else equal, the higher the level of deposits held at a branch, the more profitable the branch, as the fixed costs of branch operation can be spread across a wider deposit base (Edelstein and Morgan, 2004).

Controlling for other characteristics of the transaction, higher levels of deposits are associated with higher premiums in branch sales, consistent with the idea that deposits are a meaningful measure of branch performance (Boufounou, 1995).

Developed a model for a Greek bank, to support management decision-making in establishing branch goals, evaluating performance, and planning new locations, and conclude that the volume of deposits has been identified as the key feature in the location of new branches and in

measuring branch performance. Aside from collecting deposits, branch networks also generate new lending, especially consumer and small business lending (Sofia R, 2004).

(Berger & DeYoung, 2001). Assesses the effects of geographic expansion on bank efficiency, for 7000 U. S. banks, over the period 1993-1998. The results imply that there may be no particular optimal geographic scope for banks. Different types of banks are likely to follow different expansion strategies. While foreign banks may cherry-pick a set of elite customers and prefer urban and developed areas, domestic banks may exploit their superior knowledge of culture, social norms, and local communities and have a comparative advantage in rural and underdeveloped areas. In addition, government- owned banks may pursue nonprofit goals in their branching and expansions (Franklin et al, 2012). Also argued that the key elements of the social banking program which contributed to its success in reaching the poor were the expansion of the rural branch network and directed lending towards weaker sections in Indian society (Burgess, 2004).

(Mark and Kris, 2002). argue that states in U.S.A that permitted statewide branching experienced lower failures rates, not because branch banks are more diversified, but because these laws had transforming effects on banking systems. They increased the level of competition by breaking up local geographic monopolies, and encouraged consolidation by forcing inefficient banks to merge or exit the system have performed a study on the evolution of branch restructures in Portugal. According to them, some banks have increased the number of branches in order to fight back the increase on the branch network of their competitors (Cabral and Majure, 1992) as cited by (Sofia R, 2004).

challenge for financial institutions is serving the low income market is how to optimize branch networks to serve high volumes of customers- to provide high quality financial services at a low unit cost. Branches must meet the requirements of the institution, its customers and its regulators. Optimizing branch operations requires continual support in a number of strategic areas. Fast efficient transactions are driven by an appropriate banking system. In this regard, leadership plays a crucial role in making appropriate strategies (Earnest & Young, 2013).

Another issue, the technology revolution taking place has greatly affected the way bank-branches operate, and forced them to assume a different role in banking (Talluri & Singapogu, 2012). The

adoption of multichannel banking and cost advantage of self-service channels has eroded the dominance of bank branches, (Cracknel, 2005). Given the cost of infrastructure of today's branches, banks can't drive the increase in revenue necessary to maintain a positive return. As per his findings, branch transaction costs well exceed other channels; the cost of a branch transaction is approximately 20 times higher than a mobile transaction and more than 40 times higher than an online transaction. In particular, it has been argued that bricks-and mortar branches are a comparatively expensive means of delivering retail financial services, particularly deposit-based services to the extent this is the case, and then the creation of extensive branch networks could impose a significant cost structure on banking organizations (Orlow, Radecki, and Wenninger, 1996) as cited by (Hirtle 2005).

Marta Sofia (2004). In her research on —the bank-branch network restructure problem‖ also argued that bank-branch network is closely related to the location problem. Opening a branch increases the total costs by an amount related to the immediate expenses such as refurbishment, security, and equipment costs. In order to open a branch, a bank must hire employees to operate it. As a consequence, the total costs will go up as there is the need to train new employees and also due to their salaries. Emphasized that the call for branch transformation is both urgent and important. But it must not be done in a vacuum. Delivery channels and their underlying infrastructure are all interdependent (Celent, 2012) and (Ebisa and Anduaem ,2013).

Continued expansion of branch networks seems consistent with a belief by these organizations that branches will continue to be an effective channel for generating retail banking revenues, despite high costs and the development of alternative distribution channels such as call centers, ATMs, and online banking A question that might be asked is whether bank-branches may disappear in the near future (Akhavain, Frame & White, 2001).

Anne Howland (2000) answers that question, by saying:

*"... It's not time to give up on the traditional bank-branch just yet. After all, it's that familiar sign at street level, and the staff within the branch, that are often a client's first, and perhaps most comfortable, introduction to the bank, serving as a point of entry to the growing number and diversity of banking products, services and delivery channels."*

Bank branches are a highly effective and profitable distribution channel for retail services relative to other methods like the internet or call centers if there are economies of scale in the operation of branch networks or if the revenue-generating performance of branches is otherwise enhanced when they are part of large branch networks. He also stated that the increase in the number of branches is likely due to three factors: Changes in banking branching laws, well operating strategic leadership availability and changes in economic and demographic conditions encourage branching in potential markets (Spieker, 2004) and(Ellinger, 2008).

Dashen bank has an opportunity of offering technology supported services, opening number of branches and attracting potential customers by giving efficient services. But the great challenges to the bank are inadequate infrastructure, fragmented settlement pattern of the society, dwelling on mass services and growing competition in urban areas albeit existence of ample potential or opportunities in areas of economic growth, large number of population, government commitment in creating financial inclusive society and conducive business environment (Talluri & Singapogu ,2012).

## **2.6 The Banking Sector in Ethiopia**

### **2.6.1 Brief Overview**

The emergence of banking sector in Ethiopia goes back to the monarchical regime followed by the Derg regime in which the financial institutions were basically executing the economic plans outline by the central planning organ Following the demise of the Derg regime in the early 1990s, a new market economy was launched which has increased the size of the market drastically as private banks were come into being (Harvey, 1997).

Banking sector in Ethiopia is one of the repressed and protected sectors in Ethiopian economy that has been regulated until 1992. However, the banking sector is only allowed to domestic investors only by inhibiting entry of foreign banks these may cause the underdevelopment of the sector but in the future foreign banks may get license from national bank and investing in Ethiopian banking sector Moreover, the reforms introduced in the banking sector, the financial sector remains to be undiversified types of ownership, market share and financial institutions in the country (Gezae, 2015).

Although many changes have happened both in the structure of the industry as well as modernizations in the delivery of banking services, the financial system of Ethiopia is still very underdeveloped. There is no stock exchange and of the banks that exist, three are state owned and dominate the sector. There are no foreign banks in the country, and the system remains isolated from the effects of globalization while policy makers fear that liberalization will lead to loss of control over the economy. The state owned Commercial Bank of Ethiopia is the largest bank in Ethiopia and controls 2/3 of the assets of the entire banking system (Kavitha, 2012).

The Ethiopian banking industry can be characterized as highly profitable, concentrated and moderately competitive. The government controls interest rates and sets them below the high inflation rate. The National Bank of Ethiopia is the country's central bank. In most cases, the dominant bank (Commercial Bank of Ethiopia) still seizes quasi-monopoly power; it controls 2/3 of the assets of the entire banking system and now the private sector bank Dashen bank are growing rapidly in terms of their branch and their profit. In terms of contestability, the industry is still characterized as incontestable as entry in the industry is difficult, due to legal, technological and economic factors. Competition in terms of price is relatively weak in the Ethiopian banking industry. In general, banks in the Ethiopian case are competing in terms of service quality and efficiency (including use of technological advances), branch network expansions, advertising and prices, put in the order of their significance (Ibisa, 2013).

### **2.6.2 Requirements for Branch Opening (in Ethiopia)**

If a banking institution wants to open a branch, it must comply with guidelines from national bank of Ethiopia (NBE). According to directive number SBB/58/2014, a bank is required to obtain prior authorization from NBE to open a branch or sub-branch office.

- A bank planning to open a branch shall submit a duly completed and signed application together with a covering letter to the supervisory bank and shall pay an investigation fee of Birr 1,000 for each branch.
- A bank authorized to open a branch shall commence operation within six months from date of the grant of the license.
- A bank authorized to open a branch shall request the NBE, in writing, approval to commence operation in the new branch 15 days before the planned date of commencement of operation.

Before commencing operation, however, a bank authorized to open a new branch shall fulfill the following requirements.

- Place adequate and appropriate staff
- Ensure the banks relevant policies , procedure, manuals and the NBE directives are distributed to appropriate staff members of the branch to be opened
- Ensured that the branch is adequately guarded
- Cash loading and unloading area should be suitable
- The staff operating area and banking hall shall be properly ventilated, clean and sufficient with properly fixed fire extinguishers & strong vault room.
- Needs to have insurance policy at least for fire & other perils, cash and valuable in premises & in transit, and fidelity or appropriate provisions for such risks. Source (NBE Directive No. SBB/58/2014).

### **2.6.3 Branch Network Coverage**

At the end of fiscal year 2015, the number of banks operating in the country reached nineteen: three governmental and 16 privately owned banks and now the number of private banks are increased and they are under formation. As a result of the entry of private banks into the domestic banking business, the number of outlets has raised; hence, bank to population ratio and number of customers using bank services increased. The number of branches of the industry (including Development Bank of Ethiopia) increased from 205 in 1990 to 483 in 2007; Private Banks have followed an aggressive branch expansion strategy in business towns and capital cities of the country, where a great deal of business activities is executed. Continuous expansions in branch network year after year imply the intensification of competition. At the same time, the deposit mobilization and credit provision have expanded remarkably. Despite the prevailing improvement in branch expansion, Ethiopia remains one of the under-banked economies even at sub-Saharan African countries standard (Teklebirhan, 2008).

### **2.6.4 Dashen Bank s.c**

Dashen bank was founded by eleven visionary shareholders and veteran banks with initial capital of birr 14.9 million in September 1995. Upon securing license from the national bank of Ethiopia, Dashen opened its doors for service on the 1<sup>st</sup> of January 1996 with eleven fully fledged branches (At web site [www.dashenbanksc.com](http://www.dashenbanksc.com)).

Dashen bank coined its name from the highest peak in Ethiopia, mount Dashen, the bank aimed to be among the leading banks in Africa and it will extend its reach across Africa both for competitive benchmarking and business.

Headquartered in Addis Ababa, the bank is among the biggest private banks in Ethiopia. Dashen is the most reputable brand in the domestic banking market; a reputation earned Ethiopia. It operates through a network of more than 500 branches, nine dedicated forex bureaus, 389 ATMs and 1283 plus point of sale (POS) terminals spread across the length and breadth of the Nation and wherever business takes customers around the world Dashen bank already there.(At web site [www.dashenbanksc.com](http://www.dashenbanksc.com) ).

Dashen bank is operating more highly regulated and controlled financial system and face both internal and external problems. The founding shows that bank plays an important role in capital formation, human development and giving sectorial loans. Long term investment bills and improving rural part of the country is also recommended to the bank to get higher market share and hence high contribution to the country economy (At web site [www.dashenbanksc.com](http://www.dashenbanksc.com) ).

Banks Branch expansion is the improving the number of bank branches for giving will have an effect on getting many customers particularly those in far remote areas who are unbanked society. Branch expansion is among the main strategies of the bank. This strategy is to increase quality of service such as giving intended service within few minutes and increasing accessibility of the bank that enables to mobilize deposit and increase customers. The distribution of branches defines markets for financial services because branches are where deposits are held and loans are arranged.

Branches and branch expansion strategy are the most important interaction between banks and their customers. Branching enables banks to diversify their loans and deposits over a wider geographical area or customer base. In order to give credit banks should collect deposit from their customers and it is generally assumed that in order to mobilize deposit having more branches in different areas is very important so the main aim of branch expansion is for collecting more deposit from customer and distributing this deposit to customers specially potential customers they are available for presenting guarantee to the bank (NBE and Dashen bank annual reports).

Bank collecting deposits, existing and new branch networks also generate new lending especially consumer and small business lending. While at many banking organizations credit decisions have been centralized in district/regional or national credit offices branches continue to serve as an intermediate point of contact for new consumer and small business customers but it is not say about branches are not lending loan to customers because high grade branches are the license for providing loans to customers this study is aimed at inspecting the effect of branch expansion dimensions of Dashen Bank S.c has on the branch expansion and deposit mobilization of the Bank over the period since it commenced business until 2019/20 fiscal year Operators (western union, MoneyGram, express money, dahabshiil, ezremit, kahh, transfast, and ria, world remit (Hirtle, 2007).

Dashen bank is the first bank in Ethiopia to provide a full-fledged payment card service as a principal plus member of AMEX, VISA, MasterCard and union pay(as the first Ethiopia bank to sign such agreement) (At web site [www.dashenbanksc.com](http://www.dashenbanksc.com)).

- It is pioneer to introduce modern banking to the country.
- The leading bank in Ethiopia to introduce ATM service for local users
- Currently Dashen bank has more than 3.2 million account holders.
- It has strong correspondent relationship with more than 20 renowned foreign banks and a SWIFT bilateral arrangement with others.
- Combines a wide capital base with more than 8000 employees.
- Pioneer to introduce Western Union Money Transfer Services in Ethiopia and currently working with other 18 money transfer agents.
- Has a long-standing relationship with many internationally acclaimed banks throughout the world.

Above all, Dashen bank is aggressively expanding its branches across the country in the objective of increasing the saving habit of the society while being closer to the unbanked society. As of June 30, 2015 the total numbers of branches of Dashen bank were 161.) The number has reached more than 500 depicted a huge jump; showing the aggressive expansions in recent times.

Similarly, number of account holders had increased greatly from 1.4 million of the 2015 record and 3.2 million at the end of June 2021 source from (NBE and Dashen bank annual reports).

## 2.7 Conceptual framework & Model Development

**Branch Expansion Plan;** the National Bank of Ethiopia (NBE) is the government authority which sets conditions for opening a bank branch and commercial banks must obtain prior authorization ahead of implementation.

- A bank authorized to open a branch shall commence operation within six months from date of the grant of the license.
- A bank authorized to open a branch shall request the NBE, in writing, approval to commence operation in the new branch 15 days before the planned date of commencement of operation.

Since planning to open a branch is so regulated, it is not difficult to know the number of branches to be opened in the short run, at least.

On the other hand, branch expansion planning decisions are highly dependent on the existing opportunities and challenges of the environment; of which economic factors, government policy, leadership, competition, cost of business and location factors are the major ones, which were detailed above in chapter two(NBE and Dashen bank annual reports).

**Economic Factors:** said that the factors to be analyzed in investing on expansions are internal (the Return on Investment) and external (including the economic environment, market conditions and societal awareness to the banking services because when the economy is growing, the consumer base becomes large and growing with higher spending leading to more investments and as this process increase, the need for more retail banking outlets increases (Chang et al, 2005).

Financial inclusion has become a necessity in today's business environment. Whatever is produced by business houses, that has to be under the check from various perspectives like environmental concerns, corporate governance, social and ethical issues. Apart from it, to bridge the gap between rich and poor, the poor people of the country should be given proper attention to improve their economic condition. In this regard, **the government policies and commitment** play crucial role financial inclusion is significant from the point of view of living conditions of poor people, farmers, rural non-farm enterprises and other vulnerable groups; the author

conclude that role of the government and its institutions are important to improve financial inclusion. The study suggested that this requires new regulatory procedures and de-politicization of the financial system (Dev, 2006).

**Organizational Leadership;** Corporate leaders influence organizational culture, strategic vision, and strategic goals of the organization and leadership which can be adapted to changes (Kananurak, 2011; Harrison, 1995). The vision of the leadership led to the formation of corporate strategy with a focus on, who will create opportunities to increase revenue with a more even value proposition and enhanced customer loyalty the team leader is also a factor to co-create the vision of the organization and work towards common goals (Persson, 2012).

Now, the existing situation has created various challenges. Developing countries, like Ethiopia, still have a huge number of people who do not have access to banking services due to inadequate infrastructure, scattered and fragmented **locations**. Banking in developing countries is generally immature in terms of supply, product range and reach, even though reach in rural areas still remains a challenge for the banks to make expansions.

In addition to the need for easy access to services, branches must be located near the customers (Kalafatis et al. 2000). But this decision is affected by other factors affecting the location decision, which include the community size, awareness level and the type of products (Canel and Das, 2002).

Even, if we talk about those people who are availing banking services, their expectations are raising as the level of services are increasing due to the emergence of Information Technology and intense **competition** in service quality, customer retention and improved system applications. New banks appear to have acted as technological innovators when competition increased, which added to the competitive pressure in the banking market (Goyal & Joshi, 2012).

In line with the expansion of banks branches, on the other hand, a particular bank can use this strategy as a tool to combat competitors and in order to increase market share (Fernando, 2011).

**Cost:** The cost of doing business is the major inhibiting factor for any businesses to make expansions (Govender, 2000). Found that influencing factors are the size of the organization to be expanded, materials & equipment's, human resource availability and training costs that affect the pricing and services of the banking business. Choosing the right approach in a risky undertaking, given the number of factors that influence the total costs and benefits, is decision makers 'ability to make necessary safety measures (McLarn et al, 2002).

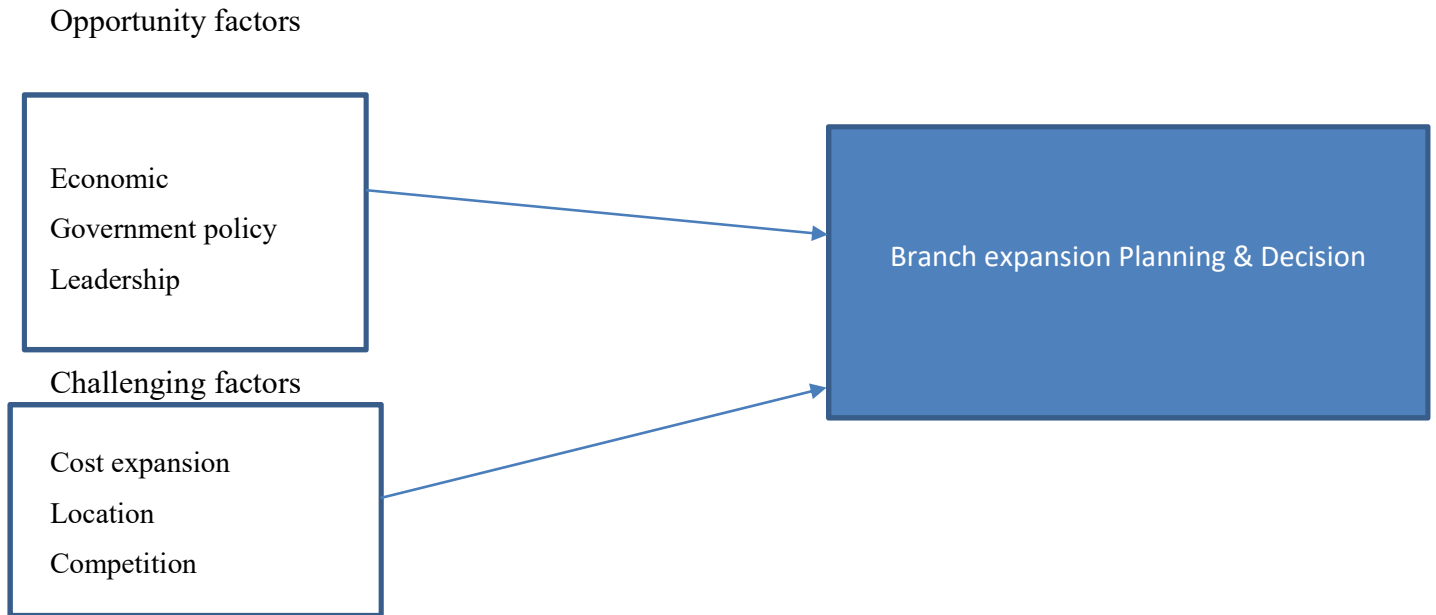


Figure 2.1 Opportunity & Challenge Factors of Branch Expansion Model

Based on the research objective and analysis of theoretical & empirical literatures, the researcher has developed and analysis the based on the respondent’s frequency percentage.

Economic Factors influence branch expansion

Government policy influences branch expansion

Leadership influences branch expansion

Competition factor influences branch expansion

Cost influences branch expansion

Location influences branch expansion

## 2.8 Review of previous studies on Ethiopia

Alemnew Workneh(2015) The most important activity of commercial banks is to mobilize deposits from the public as it is the major and cheap source of their liquidity that support lending and other operations. Deposit growth in Ethiopia’s commercial banks has averaged 19% per year in the last decade. Increase in the number of new banks in the market and increasing branch expansion in recent years, in tandem with other factors, have played a great role in this regard.

Birhanu Balcha (2015) The expansion of bank branches do have a number of implications as regards to human as well as physical resources, specifically man power requirement, fixed assets,

training of personnel and other similar resource requirements. These in turn create a pressure on the profitability of the bank in general as new branches take time to transform themselves into profit making stage.

Yigermal (2017) stated that Commercial banks (both private and state owned) invest in excessive branch expansion and the total number of bank branches opened reached above 2,700 in 2015, while it was below 400 in 2004. Of these private commercial banks opened a total of 1600 branches in 2015.

Yirga (2017) has also commented that Branch banking is the most prevalent banking system in most countries of the world. Similarly the Ethiopian banking industry is also characterized with the expansion of branches to reach the unbanked part of the society and to enhance accessibility. The total deposit mobilized has reached to birr 367.3 billion in the year 2014/15 from 37.3 billion birr in the year 2004/05. Hence, it is simple to deduce that the amount of deposit mobilized by all banks has increased drastically. Despite the challenges facing the Ethiopian banking industry, such as the requirement from the NBE for private banks to allocate a portion of their lending on government bills and the rise of cost of renting branch offices, the banks performances are encouraging and their geographical outreach growing year to year.

## **2.9 Conclusion and knowledge gap**

From the review of the relevant literature relating to the determinants of bank performance, it's possible to see the existence of knowledge gap. Even though studies were undertaken by Alemnew Workineh (2015), Birhanu Balcha (2015), Yigermal (2017) and Yirga (2017), on the determinants of Ethiopian banking performance, they all fails to include the important variables like capital Because these variables are very important variables which can significantly affects the performance of Ethiopian banking industry. Besides ,the growth and development of the Ethiopian banking industry in terms of number of commercial banks, total assets and capital ,branch network, increasing their outreach to remote areas and continuously reporting profits of different magnitude necessitate the examination of the determinants of bank performance in Ethiopian banking industry. In addition, a lot of literatures are developed to the determinants of banks performance but those studies show different and even contradictory results. This shows that there is no consensus in the banking literature on the determinants of bank performance.

## **CHAPTER III: RESEARCH METHODOLOGY**

### **3.1 Description of the Study Area**

The study was conducted in Dashen bank s.c, one of the private banks in Ethiopia. Dashen Bank was established as per the intent of the new policy and the Ethiopian investment code. It came into existence on September 20, 1995 according to the Commercial Code of Ethiopia and the Licensing and Supervision of Banking Business Proclamation No. 84/1994 with a paid up capital of Birr 14.9 million and authorized capital of Birr 50 million. The first founding members were 11 businessmen and professionals that agreed to combine their financial resources and expertise to form this new private bank. Dashen starts with 11 fully fledged branches and now it reaches more than 550 branches.

Dashen bank s.c was leading private bank for more than 20 years in Ethiopia private commercial banks in all aspects of banking industry such as, gross profit, branch expansion, introduction of modern banking service, reduction of unemployment, paying high income tax, exerting effort for social responsibility and contributing to the development of the banking industry.

Dashen bank head office are found in Addis Ababa around senga tera in the new building headquarters the bank has structured with one chief executive officer and nine vice chief executive officers twenty eight directors and the bank has the total of more than 7000 employees.

### **3.2 Research Design**

Robson, 2002 classified the research design as exploratory, descriptive and explanatory. The use of exploratory research is to find out „what is happening; to seek new insights; to ask questions and to assess phenomena in a new light“ (Robson 2002). The descriptive research used to portray an accurate profile of persons, events or situations (Robson 2002). In addition, descriptive method of research issued to gather information about the present or existing condition (Creswell, 2003). In explanatory studies, causal relationships between variables exist. It emphasis on studying a situation or a problem in order to explain the relationships between variables (Saunders, 2016 cited in Robson 2002).

From the three categories of research designs, descriptive type is used for this study. The objective of this study is to check the current practice, challenge and opportunities of branch expansion in Dashen Bank. Additionally, the study describes the nature of challenges and

opportunities of branch expansion by portraying the profile of respondents. Therefore, descriptive type of research design is better and used in study.

### **3.3 Research Approach**

To conduct a given study there are three research approaches such as quantitative, qualitative and mixed research approach (Creswell,2003). Quantitative research approach used for measurement that can be quantifiable while the qualitative approach used for non-numeric values (Bryman& Bell, 2007). In mixed research, approach data's are interpreted by both qualitative and quantitative assumptions (Creswell, 2009).

In this study both quantitative and qualitative approach are used to minimize errors by using single method and to understand the research problem in better way by mixing both numeric values of quantitative research and the detail of qualitative research Creswell (2009). Results from questionnaires and interview are interpreted using mixed method.

### **3.4 Target population**

The target population is Dashen bank employees that worked at head office managerial and districts that located in Addis Ababa higher positions. Dashen bank s.c head office and Addis Ababa two districts, North and East is chosen for this study because of two reasons. First it is located in near for researcher. Second, branch expansion is mainly concerned with the top department levels that work at head office and district level.

Totally, the bank has 180 employees on permanent basis who are working in the head office and 44 employees from two districts (North: 23 and East 21) ,total population 224 in both head office and two districts north and east districts they found in Addis Ababa.

### **3.5 Sample Size & Sampling Technique**

The sampling frame, also known as a working population chosen is a non-probability sampling method was used. From non-probability sampling, purposive sampling technique was chosen. The targeted staffs of the Dashen bank who are working on managerial & higher positions, in head office and from two districts north and east areas were selected. Out of 224 of the targeted staffs retail operation managers, marketing managers, customer relationship managers, district

managers, department managers, and directors who are working on managerial & higher positions in head office and two districts, 10 from north district, 9 from east district and 76 from head office with a total of 95 respondents were purposively selected. The sample size of this study represents about 42% (95) of the total target population.

The purposive sampling technique was applied to head office and district managers at higher level directors because they are officials in charge of dealing and giving decisions up on issues related to the study.

### **3.6 Variables of the Study**

As the study investigates branch banking expansion opportunities & challenges in the case of Dashen Bank, the variables of the study are **Branch Banking Expansion** (dependent variable) which is measured on five point likert scale (its significance level) and **factors for branch expansion (opportunities & challenges)** (independent variables) similarly measured on five point likert scale (their significance level). From the bank's perspective the materialization of opportunities (economic factors, government policy, leadership capability) in tandem with possible challenges (whatever its cause cost of doing business, location inconvenience, competition) would result into future branch expansion decisions. The decision could be to plan an expansion or not.

### **3.7 Data Sources & Methods of Collection**

The data collection methods were both primary and secondary data source of collection. The primary data were collected through the use of standardized questionnaires and interviews. The questionnaires consist of both closed-ended and open-ended question items. Methods of data collection followed the standard questionnaires prepared by Swaminathan (2004) which was prepared in the form of Likert five scales 1-very satisfied, 2-satisfied, 3-neutral, 4-dissatisfied and 5-very dissatisfied. (Likert, 1970s). However, to measure effects of opportunity and challenge factors on branch banking expansion planning, the researcher modify in relation to the study. For that matter, the researcher was tested the reliability and checks its dependability.

Secondary data were collected from Annual Reports and Website of the Bank. Moreover, reports and directives of National Bank Ethiopia are used as additional sources. The audited annual financial reports for the Bank from the year 2015/16 to 2020/21 G.C were the area of focuses as

a source of secondary data. The other sources like literatures from various books, journals and websites also were used as a source of secondary data.

The study makes use of secondary data related to financial performance and branch expansion trends of the Dashen bank. Specifically, data related to the number of branch openings and the financial measures including the deposit level, asset portfolio, loan position, revenue, expense and profit & loss is collected from mainly of Dashen bank's annual audited reports. The data collected with special emphasis on the last six years records.

### **3.8 method of Analysis**

The method of data analysis was descriptive statistics utilized in this study includes percentages and mean among the main variables used to present the main variables i.e. using certain statistical tools (Measures of central tendency and dispersion) like meanwhile In related to qualitative data, interview and secondary data sources analyzed narratively and presented in combination with the quantitative information and data was summarized in a report form. According to Bhattacharjee (2012), the unit of analysis may be a person, group, organization, country, object, or any other entity that you wish to draw scientific inferences. In this study, part of analysis is Dashen bank which the researcher has selected for using particularly, staffs holding managerial & equivalent position as a key informant or proxy for the bank as the study focus is at institutional level. This has been done purposely to increase the reliability of data as the target staffs could have better knowledge or know-how about the subject under the study.

### **3.9 Validity of the instrument**

The measure is considered valid when it actually measures what it is intended to measure. Validity ensures the ability of a scale to measure the intended concept (Sekaran, 2003 and Anol B., 2012). Testing validity discloses ambiguous questions and unclear instructions. It also captures important comments and suggestions from the respondents that enable the researcher to improve efficiency of instruments, to adjust strategies and approaches to maximize response rate. Accordingly, the already prepared questionnaire was exposed for evaluation by the help of researcher's advisor and other professional and nonprofessional participants for correction purpose. Modifications are made incorporating additional variables and proxies taking from

several literatures and based on the practical situation in order to go well with the current research context.

### 3.10 Reliability of the Instruments

The test of reliability was another important task for sound measurement. The reliability of a measure indicates the extent to which it is without bias and ensures consistent measurement across time. It is a measure of stability and consistency with which instrument measures the concept (Sekaran, 2003). The inter-item consistency reliability is tested using a popular method suggested by Cronbach. He proposed coefficient Alpha (called Cronbach Alpha) for multi-point scaled items indicating the higher the coefficients, the better the measuring instrument (Sekaran, 2003). Its value varies from 0 to 1 but a satisfactory value is required to be higher than 0.7 for the scale to be reliable/acceptable (Cronbach, 1951 and Nunnally, 1967). In view of that, the researcher has applied the Cronbach's alpha scale as a measure of reliability of the instrument of this particular study. However, other scholars (Churchill, 1991; Sekaran, 2000; Slater, 1995) have suggested that reliability coefficients (i.e., Cronbach's alpha) as low as .60 are acceptable for hypothesis testing.

In order to gain the highest possible reliability coefficient, selected items with low reliability were dropped from the selected constructs. After excluding unreliable items, the reliability coefficients for the final study data were examined to make sure that it ranges above **0.7**. The reliability statistic for each of the identified variables is presented in the following Table.

<b>Variables</b>	<b>Items</b>	<b>Cronbach's alpha</b>
Branch expansion decision	2	0.75
<b>Opportunity factors</b>		
Economic Factors	5	0.97
Government Policy factors	6	0.97

Leadership	6	0.96
<b>Challenging factors</b>		
Cost of expansion	6	0.99
Location	5	0.98
Competition	5	0.98

Table 3.1: Croanbach’s Alpha Value for each construct

As indicated in the above table, the reliability measure for all variables were greater than 0.7. Thus the questionnaire is considered as reliable and suitable for data collection. The total cronbach Alpha value of the all constructs for opportunity factors are presented by the table presented below. And as it is shown the croanbach Alpha Value resulted with acceptable value which is > **0.7**.

<b>Reliability Statistics</b>	
NO of Items	Cronbach's Alpha
17	0.98

Table 3.2: **Croanbach’s Alpha Value for opportunity factors**

The total cronbach Alpha value of the all constructs for challenging factors are presented by the table presented below. And as it is shown the croanbach Alpha Value resulted with acceptable value which > **0.82**

<b>Reliability Statistics</b>	
NO of Items	Cronbach's Alpha
16	0.99

**Table 3.3: Croanbach's Alpha Value for challenging factors**

Besides, the researcher has made a test about the reliability of branch expansion opportunities and challenges as depicted on the above table. Hence, all results are greater than 0.7. Based on this, the researcher inferred that all the above dimensions have no problem of internal consistency and excellent in reliability.

### **3.11 Ethical Considerations**

The study was conducted using some ethical considerations. Each respondent to the study is first informed about the purpose and objective of the study and the questionnaires to be administered.

After explaining the objective of the study, respondents are assured of anonymity and confidentiality before being administered with the questionnaire. Therefore, the researcher was able to treat any information that was obtained from any individual confidentially without disclosing the respondents' identity. The researcher did not modify anything that has contributed to this research.

The researcher is to take in to account the dignity and safety of the research participants. Participants had enough time to fill and return the questionnaires in order to enhance the validity of the information. The respondents are not forced to participate in the study

## CHAPTER IV: RESULTS AND DISCUSSION

This chapter presents the results and discussions of the responses gathered from the respondents through questionnaire. In order to get a representative data 95 questionnaires were prepared and specifically the interview questions are also prepared. In the discussion, the trends of branch expansion with other key performances of the Dashen bank should be reviewed, and then the results of descriptive statistics for the factors influencing branch expansion to determine which opportunity and/or challenge has great impact in branch opening plan of the Dashen banks should be discussed.

The questionnaires were distributed physically in person to retail operation managers, marketing managers, customer relationship managers, district managers, department managers, and directors, whereas structured interview has been made with one district manager, one head office retail/operation managers' one marketing manager and one senior officer of the bank on branch expansion related staffs of Dashen bank they are directly responsible to branch expansion.

### 4.1. Demographic Characteristics of Respondents

The demographic factors used in the questionnaire were gender, age, Year of service, educational qualification, and respondents 'position in the banks. The descriptive breakdown here under is undertaken to review the data collected and describe opinion composition through the questionnaire.

Table 4.1: Respondents by Sex

Sex	Frequency	Percent
Male	56	59
Female	39	41
Total	95	100

Source: field survey (2022)

The above table 7 indicates the respondents'' by gender. The data in the table specify that the majority of the respondents i.e. 56 (59%) were male whereas 39 (41%) of the respondents were female. As it can be seen from the table, unbalanced numbers in the form of gender of respondents have been observed in the study. This is also an indicative of gender imbalances

among employees of Dashen bank in Addis Ababa head office. This is more pronounced in managerial positions.

**Table 4.2: Age of the respondent**

	Age	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	18 to 29	30	31.6	31.6	31.6
	30 to 39	35	36.8	36.8	68.4
	40 to 49	22	23.2	23.2	91.6
	above 50	8	8.4	8.4	100.0
	<b>Total</b>	<b>95</b>	<b>100.0</b>	<b>100.0</b>	

Source: field survey (2022)

The table 8 above shows respondents age category. More than half of the respondents 35(36.8%) and 30(31.6%) concentrated in the age group of 30-39 and 28-39 years respectively. This indicates that, the majority of the respondents were young and middle age. Respondents aged 50 and above accounts only 8.4 percent of the total respondents, indicating that more young people are appointed in managerial positions, particularly in branch operations and controller positions.

**Table 4.3: Experience of respondents**

	Years of service	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	less than 5 year	23	24.2	24.2	24.2
	5 to 10	51	53.7	53.7	77.9
	11 to 20	18	18.9	18.9	96.8
	above 21 years	3	3.2	3.2	100.0
	<b>Total</b>	<b>95</b>	<b>100.0</b>	<b>100.0</b>	

Source: field survey (2022)

The table 9 above shows respondents experience category. More than half of the respondents 51 (53.7%) have between 5-10 years of experience at the time of collecting the data, while 23 were less than 5 years. Respondents aged between >21 years accounts only 3.2 percent of the total respondents, indicating that most of employees are appointed in managerial & equivalent positions, particularly in operation managers and controller positions.

**Table 4.4: level of education**

Level of education		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Diploma	2	2.1	2.1	2.1
	first degree (BA,BSC)	70	73.7	73.7	75.8
	master's degree and above	23	24.2	24.2	100.0
	Total	95	100.0	100.0	

**Source:** field survey (2022)

Table 10 above shows the respondents educational qualification. The table depicts that the majority 70(73.7%) of the respondents had attained University Degree, and from this it can be understood that the bank appoints mostly University degree holders and above. Only 2.1 percent of respondents had a diploma, and the remaining 24.2 percent had post-graduate degree.

**Table 4.5: current position in the organization**

Position		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	retail(operation)manager	35	36.8	36.8	36.8
	marketing manager	15	15.8	15.8	52.6
	Customer Relationship manager	15	15.8	15.8	68.4
	District Manager	8	8.4	8.4	76.8
	Department Manager	6	6.3	6.3	83.2
	Director	9	9.5	9.5	92.6
	Others	7	7.4	7.4	100.0
	<b>Total</b>	<b>95</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** field survey (2022)

Table 11 above shows the positions of the respondents. As indicates, most of the respondents were branch operation managers, marketing manager and customer service managers. About 36.8%, 15.8%, 15.8% respectively most of respondents were higher position holders especially branch operation managers (at head office level) and marketing manager, and the remaining few (6.3 %) of the respondents were in other equivalent positions. This shows most of branch expansion responsibilities are the duty of retail (operation) and marketing managers because to identify the specific location by marketing manager and retail managers are leads to do implementation.

## **4.2 Branch Expansion Trend & Performances of Dashen bank s.c**

### **4.2.1 Branch Expansion Trend**

Dashen has shown a remarkable increment in the number of branches especially for the last six years. A dramatic increment has been shown in the year 2017, 2018, 2016 and 2021 which showed 24.5%, 20.8%, 19% and 13.7% respectively. Similarly the branch network share of the bank to the total branch network of the country was increasing at the beginning of the study periods but in 2020 the lowest branch expansion in the study period. The share of the bank to the whole branch network of the country has started to increase (annual reports of Dashen bank).

Dashen bank has opened 263 branches on average for the last four years, which is more than the total branches expansions not only in the study but also starting from its establishment it had for 25 years since its establishment. Moreover, this average annual increment is more than the total branch network of Dashen bank. Hence, this aggressive expansion of Dashen bank has a great contribution to enhance the share of the bank to the whole banking industry. The branch expansion of Dashen bank was fast for several years. On the contrary during the last four periods 263 new branches were opened in the industry (annual reports of Dashen bank).

### **4.2.2 Branch Expansion and Deposit Mobilization**

Dashen bank has expanded its branch network by 19% an average for the last seven years. 24.5%, 20.8%, 19% and 13.7% were the maximum growth rates registered for the last four years respectively. Similarly the total deposit of the bank is also increased continuously in the same pattern with the branch expansion. The total deposit of Dashen bank has increased by 21.3% on

average for the periods under study. Of which the maximum growth has been registered for the last four years in which the bank has shown an aggressive branch expansion. The amount of deposits mobilized from newly opened and all branch networks for the last seven years together with the number of branches opened are depicted below.

Table 4.6: Branch opening trend with deposit levels

<b>Year</b>	<b>No of new branches opened</b>	<b>Amount of deposit mobilized from new branches</b>	<b>Total deposit from all branches</b>	<b>Branch growth rate (%)</b>	<b>Deposit growth rate (%)</b>
2015	23	327,231,733	19,814,107,850	<b>6.8%</b>	
2016	64	866,230,600	22,758,500,968	<b>19%</b>	<b>15%</b>
2017	83	1,213,543,975	27,782,521,940	<b>24.7%</b>	<b>22%</b>
2018	70	976,231,540	36,315,567,721	<b>20.8%</b>	<b>30%</b>
2019	40	866,545,987	44,732,543,890	<b>12%</b>	<b>23.1%</b>
2020	10	225,760,652	53,523,098,540	<b>3%</b>	<b>20%</b>
2021	46	3,654,230,460	74,476,765,250	<b>13.7%</b>	<b>39%</b>
<b>Total</b>	<b>336</b>	<b>8,129,774,749</b>	<b>279,503,106,159</b>	<b>100%</b>	

Source: Computed from Dashen bank annual reports.

As it is depicted in the above table Dashen bank has opened 336 branches (of which 2016, 2017 and 2018 the number of branches are the largest share) for the last seven years and as a result of this 279.5 billion birr has been mobilized. Hence, branch expansion is the mean to enhance the deposit of the bank. In the fiscal year that ended June 2021, the total number of bank branches in the country reached 7344; of these 550 (7.4%) are Dashen bank branches from this 336 branches are opened within seven years as of Dashen banks 25 years of success.

#### **4.2.3 Branch Expansion and Market Share**

Certainly, Dashen bank has been playing a great role in the economic development of the country for 25 years. The Bank has now aggressively expanded its branches in all regions of the

country. Currently, Dashen bank alone mobilized 4.4% of the total deposits of the industry. Based on the figures, other banks deposits mobilization effort also get strong as Dashen bank aggressive expansion poses a serious competition in the years to come, according to (NBE annual report, 2021).

Banks, insurance companies and micro finance institutions are the major financial Institutions operating in Ethiopia. By the end of 2020/21, the number of banks reached 19, including the newly opened interest free bank (ZamZam bank) which opened 833 new branches during the review financial year, thereby raising the total number of bank branches to 7,344 from 6,511 last year. About 34.5 percent of the bank branches were located in Addis Ababa. As a result, one bank branch serves about 14,000 people which is the smallest in Africa, indicates that there is a lot of untapped deposit was mobilized by the banks.

Major branch expansion was undertaken by Awash International Bank (129 branches), Abyssinia Bank (96 branches), Commercial Bank of Ethiopia (95 branches), Nib International Bank (89 branches), Abay Bank (67 branches), Buna Bank (62 branches), Cooperative Bank of Oromia (51 branches), Dashen bank (46 branches) United Bank (39 branches) and Debu Global Bank (37 branches). The share of private banks in total branch network increase to 72.5 percent from 70.5 percent last year from this more than 8% of the branch market share is Dashen bank. Total capital of the banking industry increased by 36.2 percent and reached Birr 153.7 billion by the end of June 2021. Private Banks are compete each other especially with Dashen bank because the the bank growth in the last years are grown and highly competitive so other banks are tensioned and to be competitive to increase deposits in terms of assets/loans, deposits, capital, and branch network (NBE annual report, 2021).

#### **4.2.4 Branch Expansion and Profitability**

Dashen Bank has continued growing, contributing Birr 4.8 billion to the aggregate deposits of the Bank in 2021 after an impressive 102.7% year-on-year growth. On the back of robust increase in deposits, the Bank's net outstanding loans and advances, and IFB financing mounted to Birr 63.9 Billion, after a 25% year-on-year growth. Total assets of the Bank reached to Birr 94.7 billion, registering a 38.7% growth. Owners' equity also went up to Birr 10.1 billion attaining 21.8% growth relative to last year. With additional of Birr 909 million, paid-up capital of the Bank reached Birr 4.4 billion, and comprised 43.3% of owners' equity by the close of the reporting

period. The Bank concluded the financial year 2018, 2019, 2020 and 2021 respectively with Birr1.14billion, 1.3billion, 1.8billion, and 2.4billion in profit before tax, a record achievement that exhibited arise compared to the preceding years the annual profit rates are increasing from year to year. (Annual reports of Dashen bank)

Dashen bank branch expansion strategy is increase the bank branches that are a great effect on getting many customers those live in far remote areas who are unbanked society. Dashen bank branch expansion also improves the accessibility and quality of service and enables the bank mobilizes or collects more deposit and increase customer base. Additionally branch expansion defines markets for providing financial services because they indicate where deposits are held and loans are arranged and branches are the most important intermediary between banks and their customers and this enables the bank get more deposit and give credit to potential customers for investment and finally the bank meets their main aim they generate more profit.

The overall profitability of the bank has been continuously increasing regardless of the branch expansion. At this point of activity, we can decide that branch expansion contribution towards profitability of the bank, when viewed literally, is negative (may be in the short run). However, in mobilizing required fund for loan disbursements, in creating access to the society, in expanding customer base and by increasing the economy of scale all branches has vital contributions towards profitability of the bank, as the interview with Director branch operation of the Bank testifies.(source from Dashen bank annual report 2021)

### **4.3 Analyses of Opportunities and Challenges on Branch Banking Expansion**

The questionnaires were distributed to 95 employees of Dashen bank working on managerial & equivalent positions in head office and Addis Ababa two districts. Even though, all the questionnaires were returned on the due date. This enhances the completeness and integrity of the data. Thus, 95 questionnaires were used as 100% in data analysis. Therefore, the response rate is 95 percent and this figure is considered as 100 percent sample of data obtained through questioners. The response to the questionnaire has categorized as follow, and in such a way analysis has made for each category under the next sub section.

### 4.3.1 Results of Descriptive Statistics

How do you see the recent aggressive branch expansion strategy of Dashen bank?

Table 4.7: assessment questions for Dashen bank’s Branch Expansions future plan

Opening new branches in the future is profitable?	Mean	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree		3	3.2	3.2	3.2
Disagree		5	5.3	5.3	8.4
Neutral	4.1895	7	7.4	7.4	15.8
Agree		36	37.9	37.9	53.7
strongly agree		44	46.3	46.3	100.0
<b>Total</b>		<b>95</b>	<b>100.0</b>	<b>100.0</b>	

Source: field survey (2022)

There is no enough potential to make branch expansions?	Mean	Frequency	Percent	Valid Percent	Cumulative Percent
Valid strongly disagree		26	27.4	27.4	27.4
Disagree		51	53.7	53.7	81.1
Neutral	2.0211	12	12.6	12.6	93.7
Agree		2	2.1	2.1	95.8
strongly agree		4	4.2	4.2	100.0
<b>Total</b>		<b>95</b>	<b>100.0</b>	<b>100.0</b>	

Source: field survey (2022)

Respondents asked on Dashen bank future branch expansion; 46.3% & 37.9% strongly agree and agree respectively on Dashen bank plan to open more branches in the future and the mean score of item was higher this indicating an inclination of future branch expansion.

The second question is there is no enough potential to make branch expansions in this respondents response 53.7% and 27.4% are disagree and strongly disagree respectively with this questions most of the respondents are not agree with this question indicating Dashen Bank has an enough potential to expand its branches.

Based on the information from the interview and open-ended questionnaires distributed for higher level managements, branch expansion of Dashen bank in order to improve customer base

and to collect deposit mobilization for accessibility of the customer and to be competent with other financial institution and getting more profit. position of the Dashen bank about major opportunities that trigger the bank to undertake branch expansion, it had been noted that leadership commitment, strategic move & conscious planning played the prime role of course without compromising, as he stated, the promising economic environments and established conducive government policies and Dashen is an enough potential in expanding branches.

- ✓ Total number of customer base and level of customers tendency to use bank products and services (excellency service)
- ✓ saving rate the total saving and current deposit
- ✓ profitability of the bank
- ✓ expansion of digital technology
- ✓ deposit mobilization increase the liquidity problem of the bank
- ✓ number of potential creditors or disbursement/ loan
- ✓ total paid up capital of the bank

#### 4.3.2.1 Opportunities for Branch Expansion

Table 4.8: Economic Factors

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
1. Market conditions	4.10	3.2%	4.2%	6.3%	51.6%	34.7%
2. Positive net return on investment	3.60	3.2%	8.4%	27.4%	47.4%	13.7%
3. Growth in household earnings	4.16	2.1	3.2	7.4	50.5	36.8
4. Rise in education & awareness level of the society	3.68	6.3	9.5	10.5	56.8	16.8
5. Fast growth of the middle class	3.89	8.4	4.2	7.4	49.5	30.5

Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were related to economic factors as opportunities for branch expansion. As shown in the table, the 3<sup>rd</sup>, 1<sup>st</sup> and item has higher mean score followed by the 5<sup>th</sup> implying that higher proportions of the respondents (over 87%, 86% and 80% respectively) were agreed that the items are good opportunities for branch expansion. Also, the 2<sup>nd</sup> & the 4<sup>th</sup> items mean scores are above the average neutral mean indicating their influence on branch expansion. Overall economic factors are more influential on branch expansion of Dashen bank.

Economically strong society and high awareness of customers are the most important for banks branch expansion. Especially the market conditions, areas they are strategic for deposit mobilization and potential customers are the most profitable and increase the market share as well as banks performance.

Table 4.9: Government Policy

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
6. Focus given to develop basic infrastructures	4.18	2.1	4.2	6.3	47.4	40
7. Legal framework for smooth business operations	3.77	4.2	7.4	17.9	47.4	23.2
8. Emphasis given to improve saving culture of the society	3.72	4.2	9.5	24.2	33.7	28.4
9. The desire to create bank inclusive society	3.82	3.2	11.6	15.8	38.9	30.5
10. Conducive environment for trade & investments	3.93	1.1	7.4	13.7	52.6	25.3
11. Special support to small & medium business enterprises	3.72	5.3	9.5	21.1	35.8	28.4

Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were in association with government policy as an opportunity for branch expansion. The mean scores of all the items are above the neutral threshold implying their positive contribution for branch expansions, though with varying levels of influence. Of all, the 6th followed by the 10th items took higher mean scores and had got majorities level of agreement and this indicates government policy towards development of infrastructure and creating a good environment implies to the growth of Dashen banks branch expansion.

Table 4.10: Leadership

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
12. Visionary bank leaders	4.07	3.2	8.4	7.4	40	41.1
13. Proper strategic banking plan and implementation	4.23	1.1	3.2	6.3	50.5	38.9
14. Committed leadership to expand branches.	4.06	4.2	2.1	7.4	55.8	30.5
15. Aspiration to expand branches to maintain its position.	4.20	2.1	2.1	7.4	50.5	37.9
16. Management's capacity for treatment of potential customers	3.84	3.2	4.2	18.9	52.6	21.1

Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were in association with Leadership as an opportunity for branch expansion. As noted in the table, the mean scores were high compared with any other dimensions. This can be an indication that how leadership plays vital role in core business strategies of an organization. All mean scores are above 4, except the 16th item which is slightly lower. This shows how significantly leadership affects branch expansion decisions of the Dashen bank. The leadership desire for Proper strategic banking plan and implementation took the high side (with agreement

level of 89.4%) and followed by Aspiration to expand branches to maintain its position.(with 88.4% degree of agreement).

From interview and open ended questions respondents are clearly said that the society is the source of deposit, resources, foreign currency and the bank Dashen are by supporting the society lending loans, more investment and this is creating employment and banking expansion are supporting the macroeconomic development. It mean that respondents thought on the contribution of branch expansion undertaken by the Dashen bank more inclines to deposit mobilization business transaction facilitation and its role in creating access to the unbanked society and Banks and the society work together for mutual benefit.

#### 4.3.2.2 Challenges Related with Branch Expansion

Dashen bank has increased the number of branch networks in the industry. Currently, the bank has already possessed about 8% of the total banking branch network of the country. Here, the main challenges that Dashen bank has faced while expanding its branches across the country is analyzed.

Table 4.11: Costs of Expansion

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
1. Initial material & facilitation costs are high as compared to the benefits obtained from new branches	3.57	7.4	16.8	12.8	36.8	26.3
2. House rent and purchase of cars for higher level managers are costly.	3.52	8.4	15.8	16.8	32.6	26.3
3. Human resource costly to hire & train	3.35	10.5	17.9	18.9	30.5	22.1
4. Technology to operate banking service is costly.	3.49	6.3	16.8	15.8	43.2	17.9
5. System failure is costly to banking service	3.31	4.2	24.2	26.3	26.3	18.9
6. Investing in the right technology (system) is difficult.	3.56	3.2	18.9	16.8	40	21.1

7. Size of the bank causes a difficulty to apply technologies in all its branches	3.55	3.2	17.9	16.8	44.2	17.9
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Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were asked to evaluate cost of branch expansion as a challenge. Generally speaking, item 1, 6 and 7 are more challenging factors for branch expansion compared with the other three items according to respondents ‘perception. The degree of agreement for these items was 63.1%, 62.1% and 61.1% respectively. The other items mean score are also above the neutral score implying they are challenges for branch expansion on varying levels of respondents ‘agreement. The lowest mean (with mean score 3.31) has 45.2% agreement response and 28.4% disagreements, followed by the 2nd item (with mean score of 3.35), which has 52.6% agree and 28.4% disagree responses.

Even if the cost of opening new branches at initial stage is higher in terms of material, rents, manager’s car and fuel, still expanding branches at different time is more profitable and contributes to market share of the bank from time to time.

Table 4.12: Location

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
8. Difficulty to operating/find appropriate branch houses/places	3.47	5.3	18.9	15.8	43.2	16.8
9. Low awareness with scattered settlement pattern of the population makes selection of location difficult.	3.56	6.3	15.8	10.5	49.5	17.9
10. Appropriate infrastructure inadequacy in potential areas is mostly remained as a challenge	3.92	3.2	7.4	12.6	47.4	29.5
11. The minimum requirement set by the NBE to locate a branch discourages branch openings	3.28	7.4	16.8	29.5	32.6	13.7

12. Some branch's far away from the center(head office) to control/collect treasury(cash)	4.00	3.2	4.2	15.8	43.2	33.7
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Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were asked to evaluate location and related factors influencing branch expansion as a challenge. As indicated in the table, item 12, followed by 10 with the higher mean score of 4.00 and 3.92 respectively is more challenging factor for branch expansion as compared with the other three items. The degree of agreement for these two items was 76.9% with 7.4% respondents 'disagreement. The other items mean score are also above the neutral score implying they are challenges for branch expansion on varying levels of respondents 'agreement. The lowest mean, (item 11 with mean score 3.28) has 46.3% agreement response and 24.2% disagreements.

Especially at the time of political instability bank cash (liquid assets) are attacked by theft and some illegal groups they found in remote areas far away from the center (head office).

Researcher: Is there any policy that the bank Dashen has to follow in locating new branches?

From interview opening new branches quarterly, annually for each district is a policy but the plan is fluctuate from time to time sometimes the bank branch expansion plan is considering the management decision. The bank approves budget for new branches opening cost after the marketing department study is acceptable and profitable all districts are opening new branches it may affected through political instability and getting the right place for right branch is difficult.

Table 4.13: Competition

Item	Mean	1 SD	2 D	3 N	4 A	5 SA
13. Keeping customers loyal in a multi-banking environment becomes difficult	3.28	10.5	16.8	18.9	41.1	12.6
14. High competition by other financial institution is a challenge to maintain formal operations	3.57	7.4	16.8	10.5	41.1	24.2

15. Adoption of mass customer service makes the bank to lose potential customers	3.31	15.8	9.5	16.8	43.2	14.7
16. Skilled manpower turnover makes the bank short of quality management of the expansion	3.60	6.3	14.7	12.6	45.3	21.1

Note: SD: strongly Disagree, D: Disagree N: Neutral, SA: Strongly Agree, A: Agree

**Source:** field survey (2022)

These items were asked to evaluate competition as a challenge to branch expansion. Generally speaking, items under this category are with low mean scores as compared to other factors, although all are above the neutral mean. Item 16 & 14 are relatively with higher mean scores implying that they are somewhat challenging factors for branch expansion as compared to the other two items. The degree of agreement for these items was 66.4%, and 65.3% respectively. The lowest mean (with mean score 3.28) has 53.7% agreement response and 27.3% disagreements.

Banks competition is increase from time to time due to this there is high competition in terms of foreign currency, man powers and deposit mobilization between banks and additionally the new banks come to the market them hair the trained and more experienced employee with high salary scale that affect the bank performance and some potential customers are turn to new banks this are the challenge for existing banks. But within this competition Dashen bank is resist the challenge and expanding new branches for more accessibility and to get more deposit and profit and still now Dashen bank is more successful.

From the interview deposit mobilization, accessibility, increase the number of customer and customer service delivery increase level of satisfaction as an opportunity and lack of infrastructure cost of rent and facility appropriate branch opening is as a challenge. With regard to the major challenges, it was also noted that cost of expansion hugely affects the decision of branch expansion. Increase the branch number with good service delivery and providing loan to the society for gating more profit and income. Every branch minimizes their unwanted expanse as much as possible and increase deposit, customer, and remittance. Opening branches on more

economical and available for customer because the branch is located on there they can solve the liquidity problem. Treat potential or corporate customers they are the source of profit for bank because potential customers may be exporters, importers and high remittance generating companies so they are the wealth of financial institutions. Predicting what the customer wants and investing on the right technology or system. Improving digital banking services at the same time with branch expansion because digital services minimize costs and maximize bank opportunities.

#### **4.4 Contributions of branching to Dashen bank s.c & to the Society**

Overall respondents are clearly said that the society is the source of deposit, resources, foreign currency and the bank Dashen are by supporting the society lending loans, more investment and this is creating employment and banking expansion are supporting the macroeconomic development. It mean that respondents thought on the contribution of branch expansion undertaken by the Dashen bank more inclines to deposit mobilization business transaction facilitation and its role in creating access to the unbanked society and Banks and the society work together for mutual benefit.

## **CHAPTER v: SUMMARY, CONCLUSION AND RECOMMENDATION**

### **5.1 Summary of the Findings**

From the data interpretation and analysis made under the preceding chapter the following major findings can be summarized as follows:

- ✓ As it can be seen from the simple demographic presentation, the majority of the respondents were male (59%), likewise, the majority of the respondents (36.8%) were retail (operation) managers plus both marketing manager and customer relationship manager are (15.8%), which was used as a good indication of the respondents role with a better know how on branch expansion direction of the Dashen bank as valid for this study.
- ✓ The majority of the respondents had attained bachelor's degree and master's degree (97.9%). From this it is possible to say that all of the directors, marketing managers, district managers Customer Relationship manager & department managers have adequate knowledge on branch banking expansion issues of the Dashen bank and their responses are believed to be genuine & representative.
- ✓ Since questionnaire was employed as a research instrument, the Cronbach's alpha value of the questionnaire items were computed and became reliable and internally consistent (all items exceeded the minimum requirement of 70%) which justifies the reliability of the questionnaire items.
- ✓ From Statistical analysis of this study, respondents agreed with the three opportunity factors (Economic, government and leadership) are positive impact on branch banking expansion of the Dashen bank. However, ranking based on their level of rating, leadership role took the high-side followed by economic factors & government policies.
- ✓ Similarly, as per the statistical analysis made, respondents had agreed that all the three challenging factors (Cost, location and competition) have negative effects initially on expanding of the Dashen bank branches, with the leading factor as location followed by cost of expansions.

- ✓ The overall finding indicated that, Leadership quality followed by favorable economic factors of the country are found to be the most dominant opportunity factors in determining branch expansion and governments giving more priority to infrastructure and smooth business relation is important for branch expansion of the Bank.
- ✓ Whereas, location, cost and competition factors of doing expansions are found to be the principal deterring challenge in deciding branch expansion of Dashen bank.
- ✓ That concluded leadership together with the economic factors and Government policy is determining factor for further expansions while cost and location and competition is a decisive challenges that needs due consideration in the decision making of expansions.
- ✓ Cost of opening new branches at initial stage is higher in terms of material, rents, manager's car and fuel.
- ✓ In terms of locating new branches specially remote and inadequate infrastructure areas and political instability places are difficult and the most challenging factor for branch expansion.
- ✓ High competition and man power turn over are also the challenging factor for banks branch expansion.
- ✓ Finally Dashen bank should be increasing their branches thought-out our country more than this because still branch expansion is more profitable for the last 25 years of the bank success.

## **5.2 Conclusion**

The most important activity of commercial banks is to collect deposits from the public as it is the major and to increase their liquidity that support lending and other operations. Deposit growth in Ethiopia's commercial banks has averaged 19% per year in the last decade. Increase in the number of new banks in the market and increasing branch expansion in recent years, inter connected with other factors, have played a great role in this regard.

The branch expansions were the broad objective of this research was to identify major opportunity & challenging factors that affect Dashen bank branch expansion decision and assess their level of impacts on the future prospects. To achieve this broad objective, the study used quantitative and qualitative research approach. More specifically, the study used survey of employees of banks and structured survey of documents held by banks. based on the

respondents' perception most likely opportunity factors to the bank for expanding more branches are leadership, economic factors & government policy, whereas, challenges that affect branch expansion plan of the bank are location, cost of expansion and competition from these competition are low challenge.

Leadership and economic factors influence branch expansions and the role of government is also creating conducive frame works and strategies to the financial sector. In addition, customer behavior, population, implemented transaction technologies and potential areas are factors in planning future branching. It is therefore wise and prudent for Dashen bank to move forward with its branch expansion decision to capture increased market share & future profitability from a consumer base. In locating new branches and the initial costs are hinder the branch expansion strategy but still banks are in good position market share, and profitable.

### **5.3 Recommendations**

Based on the analysis and conclusions made above, the following recommendation points have been forwarded by the researcher.

- ✓ The bank has to keep on working in sustaining continuously improve a trained & quality leadership and employee through proper human development, planning and team work.
- ✓ To resist the competition the researcher is highly advised that the bank should have more decentralized organizational structure to make a good decision timely especially loan officer and international trade service management's at the top level that can make risky decision for better profitability performance and the loan should be provided thought the branch because branches are more related and know their customer performance.
- ✓ National bank of Ethiopia (NBE) as a governor should give great attention to banks they deliver clear and control vision these increase the motivation of employees to achieve their goals.
- ✓ The researcher advised that the bank should apply new marketing strategy for more competitive in the current situation most of the bank customer accounts are inactive (dormant) because customers are open new account not purposively for saving rather to help/cooperate bank staffs. in areas of new customer account opening banks doesn't kill their time for collecting small amount of money due to this the bank may lose potential

customers and staffs are tensioned on how open new customer account rather than how to improve service quality. But the researcher does not fully discouraging the bank account opening strategy because some people needs to get service on their work place but banks not only work for fulfill NBE requirements rather for customers satisfaction.

- ✓ To reduce the competition of local and foreign banks Dashen bank parallel to its branch expansion adopting to control transactional costs by introducing technology based banking services which potentially reduces costs like branch opening costs and staff to be employed because now a days the banking industry is technology based and leads to robotics based service this may affect the manual banking service and the bank to be competent when Dashen uses this digital based services. So Dashen bank should give more priority for digital banking products and services because they reduce cost of transaction, time and online shopping are increase from time to time and the researcher suggested that when customers using digital banking like mobile banking, internet banking and automated teller machines (ATM) the bank should give this service with low charge rather than they use in branch the bank uses the above mentioned systems the bank should protected from high cost and domestic and foreign competition.
- ✓ The bank must have adequate branches and mobilize more deposits to meet the growing rate of customers, loan demand due to increase in economy and the population of Ethiopia is rapidly growing and this indicates the bank accessibility is mandatory for our country.
- ✓ The bank should open convenient and accessible branches they are near for their customers to work place, marketing department employees are do detail study about areas and can get more resources and increases customer base.
- ✓ The bank should strong security to protect cash from thief and illegal groups especially branches far away from the center and currently this problems are increase from time to time through political instability the bank also reduce more cash transactions in these situation.
- ✓ National bank of Ethiopia (NBE) requirement's regarding on loan disbursements and other financial sector service activities should be flexible and act as facilitator rather than controller.

- ✓ The bank must select risky areas and unprofitable places they are not a good return for banking profit and performance.
- ✓ Dashen bank must be prepare themselves from foreign banks they may be inters and start their own branch in Ethiopia for a short period of time so, the bank should be strong and competitive in different ways with other country banks.
- ✓ Dashen bank Work for how to attract customers and to be selective and use the bank service and strategy not for only to meet the NBE requirement like account opining strategy. In the past year banking service customer goes to banks but currently it should be door to door service bank goes and familiar with their customers know your customer (KYC) about the source of income and what works it also protect the bank from money laundry and terrorist financing.
- ✓ The researcher advises that the bank should be preparing loans without fixed building and fixed assets guarantee rather with a good business plan to appreciate and strength the creative society.

#### **5.4 Limitations and Directions for Future Research**

The present study has some limitations that needed to be taken into consideration. One of the limitations of this study is the lack of adequate time and resources to broaden my study on trend analysis to see the impact of branch expansion on existing & future performance of the Dashen bank & also to the other Banks too. The restriction of time and resources also affected the choice of data collection methods in this study. I was forced to use most of questionnaire instead of interview method to collect information from employees and managers of the bank. All these might affect the study results and hence the use of questionnaire might limit the interpretations and conclusions of this study. Thus,

- ✓ In the future anyone who should like to work a research similar to this topic should cover wide area target population and conducting the research on the customer side in accessing an improved data to determine the most important factors that affects branch expansion of the bank.
- ✓ Future research should comparative study of Dashen bank Branch expansion practices with that of other government and private banks and also other country/foreign banks strategy because this used at the time of banks they entered to our country for to be

competitive in order to indicate the bank's position in terms of its financial performance like market share, sales growth profitability and their good business marketing strategy.

- ✓ Further research should be done to identify the impacts of branch expansion on performance of commercial banks in Ethiopia by considering the entire bank and industry specific and macro economy factors of performance.
- ✓ Anyone who works like this study should express more on how banks are benefiting the society especially for country development.

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## Appendix 1



### College of Business and Economics

#### Department of Public Administration and Development Management

#### Questionnaires

Dear, Sir/Madam;

The purpose of the questionnaire is to collect some information on the Opportunities and Challenges of Branch Banking Expansion in case of Dashen banks experience. As your responses have a great impact on the study findings, you are kindly requested to provide your genuine responses freely. No need to mention your name and the information to be provided is to be used only for the sake of academic purpose and will be kept confidential.

#### Part I. Personal Information

1. Sex: Male  Female
2. Age: 18-29  30-39  40-49  50-59 years and above
- 3 Years of service (Tenure): less than 5  5-10  11-20  above 21 years
4. Level of education: Diploma  1st Degree (BA, BSc)  master's degree & above
5. Current Position in the organization; marketing manager  CRM/Analyst   
District Manager  Department Manager  Director  Others

**PART II:** Evaluation questions related to an assessment of branch banking expansion, contributory factors (opportunities) that encourage expansion, and possible challenges to encounter the Dashen bank while making the expansions.

1. How do you see the recent aggressive branch expansion strategy of dashen bank?

NO.	Evaluation of Branch Banking Expansion	Agreement alternatives				
		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1.	opening new branches in the future is profitable					
2.	There is no enough potential to make branch expansion					

2. Please state your level of opinion, for the case of Dashen bank, the following opportunities (contributory factors for branch expansion) significance level to each given statement using the following scales by placing a cross/mark in the appropriate box you agree with, where;

1 = strongly disagree, 2 = disagree, 3 = Neutral, 4 = agree, 5 = strongly agree

No	Opportunities in branch expansion	Agreement alternatives				
		1	2	3	4	5
1	<b>Economic Factors</b>					
	Market conditions					
	Positive net return on investment					
	Growth in household earnings					
	Rise in education & awareness level of the society					

	Fast growth of the middle class					
<b>2</b>	<b>Government Policy</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Focus given to develop basic infrastructures					
	Legal framework for smooth business operations					
	Emphasis given to improve saving culture of the society					
	The desire to create bank inclusive society					
	Conducive environment for trade & investments					
	Special support to small & medium business enterprises					
<b>3</b>	<b>Leadership</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Visionary bank leaders.					
	Proper strategic banking plan and implementation					
	Committed leadership to utilize resources and expand branches.					
	Aspiration to expand branches to maintain its position.					
	managements capacity for treatment of potential customers					

2. Assessment questions related to challenging factors in branch expansion of the Dashen bank?

No	Challenges in branch expansion	Agreement alternatives				
		1	2	3	4	5
1	<b>Cost of expansion</b>					
	Material & facilitation costs are so high as compared to the benefits obtained from new branches.					
	House rent and purchase of cars for higher level managers are costly.					
	Human resource costly to hire & train					
	Technology to operate banking service is costly.					
	System failure is costly to banking service					
	Investing in the right technology (system) is difficult.					
2	<b>Location</b>	1	2	3	4	5
	Difficulty to operating appropriate branch houses/places					

	Low awareness with scattered settlement pattern of the population makes selection of location difficult.					
	Appropriate infrastructure inadequacy in potential areas is mostly remained as a challenge					
	The minimum requirement set by the NBE to locate a branch discourages branch openings					
	The branch far apart from the center(head office) is difficult to control treasury management(cash)					
<b>3</b>	<b>Competition</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	Keeping loyal customers in a multi-banking environment becomes difficult					
	Unfair competition by other financial institution is a challenge to maintain formal operations.					
	Adoption of mass customer service makes the bank to lose potential customers.					

	Size of the bank causes a difficulty to apply technologies in all its branches					
	Skilled manpower turnover makes the bank short of quality management of the expansion.					

**Part III. Evaluation of contributions of branch banking expansion towards the Dashen’s performance & to the society;**

**Short answer questions give opinion for the following issues**

**What Contributions do branch banking expansion made to the Dashen bank & the Society**

1, Create access to the unbanked society

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2, Help to improves domestic saving rate of the country

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3, Contribute to raise cheap source of capital to the bank

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4, Contribute to the growth of asset position of the bank

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5, Increase profitability of the bank

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6, Increase market share & competitive level of the bank

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7, Enhance/support investments

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8, Help to develop new banking service products

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9, Source of employment for new graduates

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10, Reduce cost of transaction & facilitate businesses

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Finally, if you would like to comment or suggest any thing that you feel about Dashen bank branch expansion strategy, please mention it.

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**Appendix 2**  
**Interview Questions**

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Years of service (tenure/Experience): \_\_\_\_\_

1. How do you view the aggressive branch banking expansion of the Dashen bank?
2. What do you think are the reasons that the Dashen bank undertakes branch expansions?
3. How do you see the nature of competition in the Ethiopian banking sector?
4. Is there any policy that the bank Dashen has to follow in locating new branches?
5. Do you think that branch banking expansion is an appropriate means for financial inclusion and to improve saving culture of the society?
6. What are the measurements used to evaluate as to whether the bank has benefited or not while making branch expansions?
7. What do you think are the major opportunities & challenges in expanding branch banking?
8. The suggestion you may have to minimize challenges & maximize opportunities.

**Thank You Very Much for your cooperation!!!**

### **APPENDIX 3**

#### **All Banks' Branch distribution (No. of Branches)**

Banks	No of Branches as of June
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	2015	2016	2017	2018	2019	2020	2021
<b>1. Public Banks</b>							
Commercial Bank of Ethiopia	977	1150	1310	1375	1578	1825	1920
Construction & Business Bank	120	0	-	-	-	-	-
Development Bank of Ethiopia	32	110	110	107	107	93	82
<b>Total Public Banks</b>	<b>1129</b>	<b>1260</b>	<b>1420</b>	<b>1482</b>	<b>1685</b>	<b>1918</b>	<b>2002</b>
<b>2. Private Banks</b>							
Awash International Bank	207	245	339	382	423	481	610
Dashen Bank	164	118	315	381	421	436	469
Abyssinia Bank	136	176	253	284	353	579	675
Wegagen Bank	119	161	223	292	355	399	419
United Bank	128	144	204	233	294	351	390
Nib International Bank	115	155	203	228	280	327	416
Cooperative Bank of Oromiya	141	184	287	332	405	430	481
Lion International Bank	88	121	158	210	235	272	289
Oromia International Bank	152	120	237	260	277	314	328
Zemen Bank	7	13	22	25	44	52	67
Buna International Bank	82	105	143	176	209	244	306
Berhan International Bank	71	88	177	168	217	256	291
Abay Bank	89	116	152	162	200	232	299
Addis International Bank	32	43	53	59	68	81	96
Debub Global Bank	22	28	38	43	53	82	119
Enat Bank	11	20	33	40	45	57	80
Zamzam bank	-	-	-	-	-	-	7
<b>Total Private Banks</b>	<b>1564</b>	<b>1927</b>	<b>2837</b>	<b>3275</b>	<b>3879</b>	<b>4593</b>	<b>5342</b>
<b>3. Grand Total Banks</b>	<b>2693</b>	<b>3187</b>	<b>4257</b>	<b>4757</b>	<b>5564</b>	<b>6511</b>	<b>7344</b>

Source NBE annual report

#### APPENDIX 4 Selected National Data

Years	Gross domestic savings	Growth in real GDP	Aver. Annual Inflation
2014/15	22.1	12.4	10.4
2015/16	22.4	8.0	7.5
2016/17	22.4	10.1	8.8
2017/18	24.3	7.7	14.7
2018/19	22.3	9	15.3
2019/20	20.8	6.1	21.6
2020/21	19.0	6.3	24.6

NBE Annual report