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Understanding the Role of Bank Relationships, Relationship Marketing, and Organizational Learning in the Performance of People's Credit Bank

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Chapter 7

BANK PERFORMANCE MODEL

The preceding two chapters have tackled the first two research questions. This chapter will cater to the third research question in inquiring about the magnitude and direction of interactions between concepts of bank relationships, relationship marketing, and organizational learning and their antecedence to bank performance. This research question is translated into a hypothesized model as presented in the pictorial path diagram (section 2.11). Chapter 7 is a continuation of Chapter 5, which has the same unit of analysis, the BPR, but a different focus on the explanation. The former focuses on an explanatory analysis by involving limited measurable variables, and the latter is an exploratory analysis, which covers the bulk of measurable variables. Therefore, understanding the substance of Chapter 5 is essential to have an insight into Chapter 7. The purpose of this chapter is actually not simply a proving ground of hypothesized models but more importantly is to find out potential ways to improve the roles of relationship elements of antecedent concepts in achieving sustainable bank performance.

Given the hypothesized model and 152 data set cases, the data is analyzed from the field survey using Structural Equation Modeling with a special reference book written by Byrne (2001), as it is discussed in section 4.5.2. Therefore, the statistical analysis follows a protocol that can be briefly described as follows. First, it goes through a confirmatory factor analysis (CFA) rather than an exploratory factor analysis (EFA). This step undertakes a series of discrepancy tests (confirmations) between hypothesized models (both measurement and full latent variables) and the survey data. It is concerned with the unidimensionality test by using selected goodness indexes (GFIs) and critical ratios of both factor loadings of measurable variables. Second, it is proceeded with a discrepancy test with a full latent variable model and a significant test of all eligible factor loadings and path coefficients of the concepts respectively¹. By considering this statistical test protocol, Chapter 7 is organized into 4 sections. Section 7.1 is a Confirmatory Factor Analysis of Measurement Models; section 7.2 is confirmatory analysis of bank performance model, and section 7.3 is the discussion; and finally, section 7.4 is the Conclusion: findings and limitations.

¹ See section 4.4 for a more comprehensive explanation of Simultaneous Equation Modeling and AMOS software.

7.1 Confirmatory Factor Analysis of Measurement Models

A link has been set between measurable variables² and unobservable latent constructs which is known as a measurement model. This measurement model can be traced back through the research questions (Chapter 1), bank performance model formulation (section 2.11), and finally in questionnaires of measurable variables that are presented in section 4.2. The model assessment starts with a goodness of fit test (confirmation) of measurement models of four major constructs that appear in Table 7-1, in which these constructs have higher abstract levels than the last construct.

Table 7-1: Four latent constructs, eight sub-constructs, and 45 measurable (indicator) variables of four measurement models

| No. | Latent construct/concept | Sub-construct | Notation | Number of indicators ^{*)} |
|-----|--|---|----------|------------------------------------|
| 1 | Bank relationships (BR) | 1. Track-records (BR-TR) | Ex & F | 8 |
| | | 2. Investigation & decision (BR-ID) | G | 3 |
| | | 3. Monitoring (BR-M) | I | 5 |
| | | 4. Value (BR-V) | H | 7 |
| | Subtotal | | | 23 |
| 2 | Relationship marketing (RM) | 1. Strategic intent (RM-SI) | A | 3 |
| | | 2. Preventive action (RM-PA) | B | 6 |
| | Subtotal | | | 9 |
| 3 | Organizational learning (OL) | 1. Codification of soft information (OL-C) | D | 3 |
| | | 2. Information sharing for improvement (OL-S) | C | 4 |
| | Subtotal | | | 7 |
| 4 | BPR performance (P) | - | P | 6 |

Note: ^{*)} indicators or observed (manifest, measurable) variables may be used interchangeably

This means the first three constructs have several sub-constructs. There are two possible ways to assess discrepancy tests of these measurement models. First, the measurement models are represented by direct links between the main construct and its corresponding measurable variables and, hence, associated sub-constructs are disregarded. For example, a bank relationship construct is directly linked with 23 measurable variables. Second, since the first three constructs are in a higher abstract position, a segregation of their sub-constructs with the main construct is necessary. It means that CFA is applied to the measurement model of sub-constructs. Alternatively, there is a possibility to develop a second order measurement model where three layer

² These terms are similar to indicators, observed variables, or manifest variables. They may be used interchangeably.

elements of a measurement model are integrated together. That is, the main latent construct is placed in the first layer, sub-constructs are in the second layer and finally all measurable variables are in the third layer. After conducting a sequence of analyzes of all possible combinations of measurement models, the choice is set apart from sub-constructs³ into separate entities and their interactions are formulated rather than placed into a second order measurement model.

Given that the multiple indicators to represent the latent constructs (variables) do not perfectly measure with what they have to be, the goodness of fit index (or badness of fit index) is done based on five selected GFIs, i.e., χ^2 (Chi-sq) and probability, relative χ^2 (CMIN/DF)⁴, RMSEA (root mean square error of approximation), TLI (Tucker-Lewis index) and CFI (comparative fit index) to judge the degree of fitness between hypothesized models and survey data. The outcome of AMOS is summarized in Table 7-2

Table 7-2: Summary of some selected goodness of fit indexes (or statistic) with regards to the main constructs and corresponding sub-constructs

| No. | Construct/sub-construct | Number of Indicators | CMIN (Chi-sq) | | CMIN/DF | RMSEA | TLI | CFI |
|---|-------------------------|----------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | | | Abs. | Prob. | | | | |
| I | BR | 23 | 466.148 | 0.00% | 2.74 | 0.11 | 0.95* | 0.96* |
| | BR-TR | 8 | 81.481 | 0.00% | 4.10 | 0.14 | 0.97* | 0.98* |
| | BR-ID | 8 | 40.343 | 0.50% | 2.02 | 0.08* | 0.98* | 0.99* |
| | BR-M | 5 | 9.959 | 7.60%* | 1.99* | 0.08* | 0.99* | 0.99* |
| | BR-V | 7 | 29.035 | 1.00% | 2.074 | 0.08* | 0.99* | 0.99* |
| II | RM | 9 | 27.961 | 41.3%* | 1.02 | 0.02* | 0.99* | 1.00* |
| | RM-SI | 3 | 0.000 | - | - | - | - | - |
| | RM-PA | 6 | 7.410 | 5.00%* | 0.82* | 0.00* | 1.00* | 1.00* |
| III | OL | 9 | 48.575 | 0.00% | 3.47 | 0.13 | 0.97* | 0.98* |
| | OL-C | 3 | 0.000 | - | - | - | - | - |
| | OL-S | 6 | 11.020 | 0.04% | 5.51 | 0.17 | 0.97* | 0.99* |
| IV | P. | 6 | 70.122 | 0.00% | 7.79 | 0.21 | 0.92** | 0.96* |
| Rules of thumb of the GFI threshold level | | | | ≥ 0.05 | ≤ 2.00 | ≤ 0.08 | ≥ 0.95 | ≥ 0.94 |

Note: * represents the corresponding hypothesized measurement model is a good fit with the sample data, and ** represents a fair fit. The measurement model is judged to be a good fit as far as it meets one or more GFI criteria.

³ See for example Byrne (2001: p.143) in which the teacher burnout construct is segregated into three interrelated sub-constructs, i.e., depersonalization, emotional exhaustion, and personal accomplishment

⁴ CMIN stands for minimum discrepancy and DF: degree of freedom

Table 7-2 presents a summary of GFI output of 12 measurement models consisting of four main constructs and eight sub-constructs. Almost all of them meet one or more GFIs, except RM-SI and OL-C. These two measurement models of a relationship marketing sub-construct and organizational learning are considered as bad fits. However, according to Byrne (2001, p.88) they should not be discarded right away but should be included for further significant tests of factor loadings (regression weights) of measurable variables. Eventually, one's prior knowledge of both theoretical and empirical references needs to be considered to continue the statistical test stage. Therefore, the research can move forward to a significant test of factor loadings. By using a 0.05 significant level, an indicator will be judged as statistically significant if the critical ratio (CR) of its regression weight is above 1.96. Otherwise, the indicator is eliminated from the measurement model of the subsequent full latent variable analysis.

All 12 measurement models produce 84 regression weights and 84 critical ratios⁵ of measurable variables. Table 7-3 contains a list of summary evaluations of both GFI of measurement models and the statistical significance of regression weights of measurable variables.

Table 7-3: Summary of the confirmatory analysis of measurement models from both main constructs and sub-constructs

| No. | Construct/sub-construct | Good Fit | Statistically significant of factor loading of indicators | # of eliminated indicators |
|-----|-------------------------|----------|--|----------------------------|
| 1 | BR | ** | None | 23 |
| | a. BR-TR | ** | All | 0 |
| | b. BR-ID | *** | All | 0 |
| | s. BR-M | *** | None | 5 |
| | d. BR-V | *** | All | 0 |
| 2 | RM | *** | Except: A3 (tracking record) and B5 (let client exit) | 2 |
| | a. RM-SI | Poor | None | 3 |
| | b. RM-PA | *** | Except B5 (let client exit) | 1 |
| 3 | OL | *** | Except D1 to D3 (codification) and C4 (loss of information due to AO turnover) | 4 |
| | a. OL-C | Poor | All | 0 |
| | b. OL-S | ** | All | 0 |
| 4 | P | ** | P4 (spread) | 1 |

Note: The choice between using a main construct or sub-construct is based on a minimum number of eliminated indicators (those having a statistically insignificant factor loading).

Based on the table (above), the eligibility of each measurement model and each indicator as part of a full latent variable (FTV) analysis in section 7.2 is

⁵ the output is not reported

evaluated. First, the measurement model of the bank relationship construct shows a poor fit, and none of the 23 measurable variables are statistically significant. While three out of four measurement models of bank relationship sub-constructs pass the test of both GFIs and CR. The monitoring sub-construct measurement model is a good fit, but all measurable variables are insignificant. Pure statistical consideration may suggest that this measurement model should be discarded. The results of this inquiry also suggest possible alternative solutions, i.e., (a) build a second order measurement model or (b) build an alternative model displaying some possible causal interactions among sub-constructs and integrate them within and between latent constructs. By taking these facts into account, the next section will explain two scenarios of the full latent variable analysis. First, regardless of the weakness of the bank relationship measurement model, a CFA will be conducted of the available hypothesized model (section 2.11) where the bank relationship measurement model is taken as a single measurement model rather than four sub-construct measurement models. Second, a new path diagram will subsequently be reformulated to build a new model – a modified bank performance model. Table 7-3 reveals that a new model should embrace both eligible sub-constructs of a bank relationship and organizational learning along with relationship marketing and bank performance constructs.

7.2 Confirmatory Analysis of the Bank Performance Model

The original hypothesized models (model 1 and model 2) in section 2-11 are actually based on sound extant theoretical and empirical research evidence. However, there may be possible modifications since these theories and empirical research are still progressing, driven by the fact that some local specific variables have not been included, such as cultural, social, and regulatory framework variables. The goodness of fit analysis (see Table 7-4) of original hypothesized bank performance models is the first place to start.

Table 7-4: Goodness of fit indexes of original hypothesized bank performance models

| No. | Construct/ subconstruct | Indica- tors | CMIN (Chi-sq) | | CMIN/DF | RMSEA | TLI | CFI | |
|---|----------------------------|-----------------|---------------|-------|---------|--------|--------|--------|--------|
| | | | Abs. | Prob. | | | | | |
| 1 | Model 1 | 35 | 948.370 | 0.0% | 1.706* | 0.068* | 0.965* | 0.969* | |
| 2 | Model 2 | 35 | 976.975 | 0.0% | 1.757* | 0.071* | 0.963* | 0.967* | |
| Rule of thumb for the GFI threshold level | | | | | ≥ 0.05 | ≤ 2.00 | ≤ 0.08 | ≥ 0.95 | ≥ 0.94 |

Note: * represents that the full latent variable of the hypothesized model is a good fit with the data

According to the GFI criteria, the two original hypothesized bank performance models are a good fit with the survey data. Unfortunately, all path coefficients of both models (model 1 and model 2) are statistically insignificant. These two models fail to meet prior expectations or hypotheses and encourage a re-specification of the possible relationships into modifying the models. Nevertheless, model 1 appears superior to model 2 in terms of sign and magnitude of the path coefficients as presented in Table 7-5.

Table 7-5: Regression weights of the original model 1 and model 2

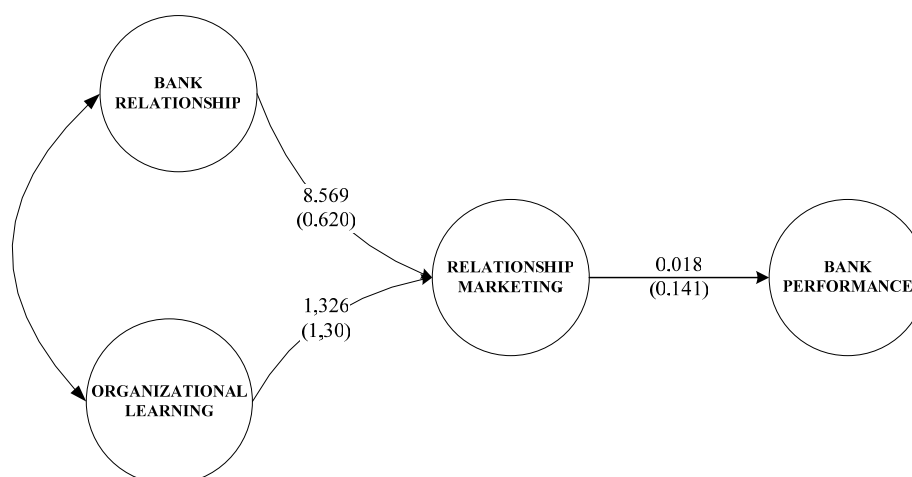
| No. | Path direction | | | Model 1 | Model 2 |
|--|----------------|-----|----|------------------|--------------------|
| 1 | BR | --> | RM | 8.569 (0.620) | |
| 2 | OL | --> | RM | 1.326 (1.300) | 0.976 (1.422) |
| 3 | RM | --> | P | 0.018 (0.141) | 0.224 (0.949) |
| 4 | OL | --> | BR | | 0.049 (0.466) |
| 5 | BR | --> | P | | -3.797 (-0.513) |
| Number of regression weight indicators | | | | | |
| insignificant | | | | 19 | 20 |
| significant | | | | 16 | 15 |
| Total | | | | 35 | 35 |

Note: The figure within parentheses is the critical ratio (CR, or identical t-ratio) of the path coefficient.

Re-specification of the next models (modified models) will start with model 1 (Figure 7 -1) where sub-constructs of a bank relationship and organizational learning are used rather than their main constructs. Five alternative modified models are proposed⁶. Of course, there are implicit hypotheses underlying the new modified models that will become clear in the next section.

⁶ Initially, seven alternative modified models were formulated, but two of them were excluded because one model did not have any solution (A), and the other model was identical to another model (E).

Figure 7 -1: Final outcome of the original hypothesized model 1



AMOS graphic is run repeatedly to produce GFIs and regression weights of eligible measurable variables. Table 7-6 provides a summary of five GFIs from five proposed modified models.

Table 7-6: Five goodness of fit indexes out of five modified models

| No. | Modified model | Indicators | CMIN (Chi-sq) | | CMIN/DF | RMSEA | TLI | CFI |
|--|----------------|------------|---------------|--------|---------|---------|--------|--------|
| | | | Abs. | Prob. | | | | |
| 1 | B | 34 | 793.277 | 0.0% | 1.523* | 0.059* | 0.975* | 0.978* |
| 2 | C | 33 | 730.271 | 0.0% | 1.496* | 0.049* | 0.977* | 0.980* |
| 3 | D | 31 | 635.981 | 0.0% | 1.482* | 0.057* | 0.979* | 0.982* |
| 4 | F | 31 | 458.498 | 0.0% | 1.437* | 0.054* | 0.984* | 0.986* |
| 5 | G | 31 | 458.815 | 0.0% | 1.438* | 0.054* | 0.984* | 0.986* |
| Rule of thumb of the GFI threshold level | | | | ≥ 0.05 | ≤ 2.00 | ≤ 0.080 | ≥ 0.95 | ≥ 0.94 |

Note: * signifies that the full latent variable of the hypothesized model is a good fit with the data
Modified models A and E are not reported as they have no solution.

According to GFIs criteria, as shown in Table 7-6, it reveals that each FLV model proves it is a good fit with the data survey. This allows the research to proceed forward to scrutinize the factor loadings of 160 measurable variables⁷ and 29 path coefficients (Table 7-7) based on the criterion of critical ratio (CR). Fortunately, almost all of the factor loadings of measurable variables are statistically significant, except the two indicators of the codification sub-concept of organizational learning. The modified model B (Table 7-7) has seven path coefficients, of which four of them are statistically significant. The rest of the modified models have two or three path

⁷ A detailed and bulky AMOS output was not reported.

coefficients that are statistically significant. Therefore, the modified bank performance model B is superior the other four modified bank performance models (Figure 7 -2). However, this model shows that some puzzles lay ahead for the next discussion in section 7.3. The puzzles are concerned with the three path coefficients that are statistically insignificant.

Table 7-7: Path coefficients and critical ratios of five alternative modified models of bank performance

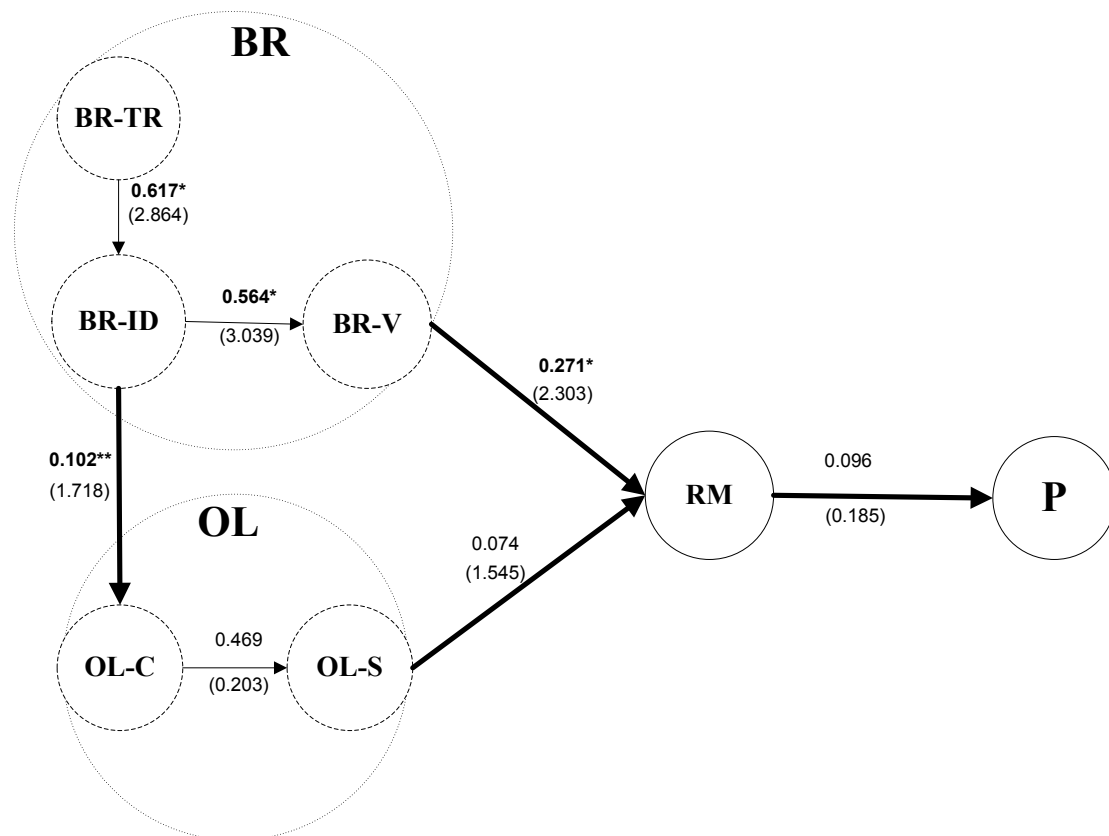
| No. | Path direction | Modified model alternatives | | | | |
|----------------------|-----------------|-----------------------------|-------------------|-------------------|-------------------|--------------------|
| | | B | C | D | F | G |
| 1 | BR-TR --> BR-ID | 0.614* (2.849) | 0.617* (2.864) | 0.619* (2.864) | 0.547* (2.706) | 0.541* (2.702) |
| 2 | BR-ID --> BR-V | 0.564* (3.039) | 0.550* (3.026) | 0.555* (3.041) | 0.143* (1.781) | 0.136** (1.741) |
| 3 | BR-ID --> OL-C | 0.102** (1.718) | 0.059 (0.823) | - | - | - |
| 4 | BR-V --> RM | 0.271* (2.303) | 0.270* (2.302) | 0.270* (2.306) | - | - |
| 5 | OL-C -->OL-S | 0.469 (0.203) | 0.781 (0.194) | - | - | - |
| 6 | OL-S --> RM | 0.074 (1.545) | 0.074 (1.544) | 0.074 (1.566) | - | - |
| 7 | RM -->P | 0.096 (0.185) | 0.096 (0.185) | 0.099 (0.190) | - | - |
| 8 | OL-S -->BR-ID | - | - | - | 0.108 (0.979) | - |
| 9 | RM -->BR-V | - | - | - | 0.205 (1.232) | 0.220 (1.268) |
| 10 | OL-S -->BR-V | - | - | - | - | 0.031 (0.808) |
| 11 | BR-V --> P | - | - | - | 1.314 (1.604) | 1.306 (1.576) |
| Number of indicators | | 34 | 33 | 31 | 31 | 31 |

Note: The figure within parentheses is the critical ratio (CR, or identical t-ratio) of the path coefficient.

The hypothesized causal pattern (Figure 7 -2) between sub-concepts/constructs of bank relationships and organizational learning are based on credit cycle decisions and logical information processing respectively. Within the credit cycle decision process, BPR should start with the classification of potential borrowers according to their credit risk profiles. Based on this limited information, BPR should be able to extract a

first glance signal of potential borrowers' quality, as being either creditworthy or non-creditworthy. An elaboration of the borrower quality for final screening to minimize risk of default takes place through field (on-site) investigations and prompt decisions. For the next step, a credit investigation is done before deciding what source of value offered will be given to incumbent borrowers. It is expected that the investigation and decision stage facilitates a bank in classifying its clients, which are eligible to receive potential sources of relationship value.

Figure 7 -2: Final modified model of bank performance



It is assumed that the monitoring stage (BR-M) of existing clients should affect organizational learning in the codification stage, since the monitoring measurement model is not eligible to enter a full latent variable and the measurement model is not part of the modified model anymore. Therefore, it is hypothesized that BR-ID positively affects the codification stage within organizational learning (OL-C).

7.3 Discussion

This explanatory analysis is integrated among the concepts of a bank relationship, relationship marketing, and organizational learning which are grounded

within a value chain (Michael Porter 1985)⁸ of social and personal relations for many types of exchange transactions (Dwyer et al., 1987; Samiee and Walters, 2003). It is a generally accepted principle that a sustainable long-term exchange transaction can only exist if all chain members are better-off in terms of receiving fair value.

In light of this view, the chain can consist of fund suppliers (deposit providers), banks as intermediary units (“middlemen”) and borrowers (and other users). An upstream view focuses on the relationship between fund providers and a bank, while a downstream view focuses on the relationship between a bank and borrowers. These views are necessary but not sufficient to understand a more complex relationship pattern in the next discussion. Some discrepancies are found between the hypothesized models (expectations) and the data (actual daily life of a BPR). Some puzzles were encountered when some prior expectations did not match with the facts. More specifically, there are some measuring models, such as the monitoring measurement model and codification measurement model that are poor fits with the data. According to the extant theory and empirical evidence of both bank relationships and organizational learning, monitoring plays an important role in the acquisition of “soft” or private information from incumbent clients during the course of lending in a relationship. In addition to that, codification is also an important step to convert soft – tacit information – into explicit knowledge for business improvements. The statistical results show such organization learning and relationship marketing do not contribute significantly to the bank performance model for several possible reasons. First, recall in Chapter 5 which stated AOs focus more on repayment collection, especially for delinquent loans, rather than information collection. Most likely AOs gather information on a casual basis or information gathering is a byproduct of repayment collection during the monitoring phase. Second, there is no standardized job scope of personnel, who are responsible for loan cycle tasks. Some BPRs divide the job scopes of loan cycles into two parts i.e. (1) surveyor - a person who is responsible for the screening process of a loan applicant and (2) collector - a person who is responsible for specific repayment collections. Some BPRs assign AOs for specific jobs – taking care of either loan or deposit clients exclusively, while another BPR may assign AOs

⁸ The concept of a value chain has been extended beyond individual organizations. It can apply to whole supply chains and distribution networks. The delivery of a mix of products and services to the end customer will mobilize different economic actors, each managing its own value chain (see http://en.wikipedia.org/wiki/Value_chain).

to tackle both loans and deposits at the same time. This may be another reason why monitoring indicators are vague, which makes it more difficult to determine their functions within bank relationship concepts. The monitoring sub-concept is one of the striking features of research undertaken by commercial banks in developed countries. Third, the account officer has routinely scheduled field visits to clients' doorsteps in the surrounding area of a BPR office. Time allocation is crucial for sales achievements. An AO allocates time ranging from doing paperwork before leaving to and on arrival from a field visit to traveling and seeking time with a client that may consume most of the AO's workday. Incidental or regular meetings with their supervisors need time as well. This may limit the amount of time they have to truly monitor and codify soft information as good as that one in bank relationship and organizational learning literature. Fourth, an AO may be overburdened in handling many clients. In this study, it is estimated that on average each AO serves 198 clients ranging from a minimum of 88 clients per AO to 553 clients per AO. The bigger the BPR is in size, the greater the number of clients per AO. Assuming outstanding credit is a proxy of BPR size, the correlation between outstanding loans and average number of clients per AO is 0.52 (significant at 0.01). The correlation is positive but low (or "moderate"), which implies that the bigger the size is of the BPR, the more clients there will be per AO. This does not necessarily fully reflect the bigger span of control of an AO toward his/her clients. An AO has a limited capacity (span of control) in visiting clients. This implies the BPRs are able to accumulate a higher quality of clients, who are mostly bigger borrowers, who make regular repayments directly to BPR. In other words, the AO does need not to visit these types of clients; therefore, the real number of clients that require most of their time is fewer than the average number of clients per AO. However, the average number of clients per AO is not the only measure related to the burden of an AO. The task related burden of an AO can arise from, among others, the number of clients, quality of loans, and geographical distance.

Besides these reasons, a poor fit of codification of soft information in organizational learning may be attributable to the facts that: (a) training and developmental material for BPR personnel tend to mimic the ones available in commercial banks that focus on transactional rather than relational exchanges, (b) as mentioned in Chapter 5, all BPRs have computer sets, but the majority of them do not use data processing optimally to help in codification, and they even do not use tailor-

made software, (c) the incoming flow of “soft” information is much bigger than the available capacity to codify it – reflecting a huge build-up of tacit information (“knowledge”) residing in the memory of an AO, and (d) possibly there is a weakness in the writing and filing habits of AOs or even the BPRs as business organizations.

Although BPR claims to use relationship marketing, it does not always show a specified degree of commitment to put this into action. As a result, there is a distinction between strategic intent and the actions taken to curtail a client’s intention to quit within the framework of relationship marketing. CFA in Table 7-3 shows that combining all indicators of both strategic intent and preventive action into a single relationship marketing is better than separating them. If these are separated into sub-constructs, four indicators are not eligible in a full latent variable analysis, while integrating all indicators into a relationship marketing construct generates a result, in which only two indicators are not eligible for further analysis in the full latent variable model. Obviously, this may signal that filling the gap between strategic intent and preventive action is a must by integrating these into a single construct. More importantly, intensification of communication and better daily operational interactions between policy makers and executing personnel is necessary. Otherwise, there will be a missing link between strategic intent, mainly launched by the board of directors, and preventive action taken of a client’s intention to leave, which mostly depends on low-level BPR personnel: AOs, back office personnel, and front office personnel.

As mentioned above, the CFA sub-constructs of organizational learning show that codification is a poor fit, although all three indicators are statistically significant and information sharing is a good fit, while all factor loadings of indicators are statistically significant. One possible reason may resemble the findings of Papasolomou (2006), in which internal (relationship) marketing⁹ faces difficulties in its implementation within a bank that is characterized as a bureaucratic organization. It is true that BPR has to comply with rules and regulations, and all personnel (including the board of directors) have to act in accordance with predetermined standard operating procedures. Within the surveillance framework, Bank Indonesia, as a supervisory body, puts more of an emphasis on compliance as a preventive measure for potential risk. Otherwise the risk of moral hazard is likely to increase from some

⁹ Some dimensions of internal relationship marketing (or simply internal marketing) are similar to those dimensions in total quality management and organizational learning (see for example: Ballantyne, 2000)

opportunistic behavior of BPR personnel. This bureaucratic characteristic may impede the implementation of internal organizational learning. The badness of fit of codification could also be a signal that information sharing is more important than codification of tacit knowledge. It seems consistent with some points of reasoning that are presented above. A lack of time and capability to process (codify) tacit information drives BPR to look for alternatives to utilize this private information that is mostly kept in the minds of BPR personnel. It is easier to retrieve relevant client information from an AO rather than from computer memory; through incidental and regular meetings, as mentioned in Chapter 5, the information sharing mechanism is utilized in daily banking operations. Information sharing is one way to retrieve relevant and up-to-date information from subordinates or among AOs laterally. During a meeting, the board of directors can simply invite an AO to provide a report (“retrieve tacit information”) about borrowers or potential clients in question. Above all, there are some managerial styles that can also inhibit the flow of information sharing. By nature, there are some autocratic directors, while others behave as democratic directors. The former style most likely impedes the flow of information sharing openly.

In the end, the biggest puzzle is that relationship marketing has a very small or insignificant effect on bank performance. It is not what is expected. From a scientific point of view, this may be some mediating or intervening variable between relationship marketing and bank performance. AOs formally and legally are representatives of BPR and stay in the forefront with problematic clients, in the competition battlefield, and on the frontline in information gathering, both intentionally and unintentionally. In other words, AOs act as a hub of information flow between competitors, clients, and the director(s). The director(s) as the ultimate decision maker in the credit granting circle cannot possibly collect as much information as the AOs can. Some phenomena can be parts of mediating factors, among others, interpersonal liking (Hawke and Hefferman, 2006), cultural variables e.g., *guanxi* – personal connections and *xinyong*-personal trust in Chinese culture (Leung et al., 2005; Millington, 2005), and geographical proximity (Ganesan et al., 2005) that allow frequent interactions between AOs and their clients. Some researchers (Brown and Chin, 2004; Haris et al, 2005; Jaramillo, 2006) argue and prove there is a strong linkage between employee (here AO) and customer (here client) satisfaction. Employee satisfaction creates a commitment to service quality.

Considering this reasoning and placing it within the supply chain framework, the interaction structure can be reframed into two layers: (1) the interactions between the director(s) and AOs and (2) the interactions between AOs and their clients. Hence, there is void in giving a further elaboration, given that we as do the director(s) believe that relationship marketing plays a significant role in sustaining a bank's positive performance. Chapter 9 will elaborate the relationship process based on case study data related to some parts of these phenomena.

7.4 Conclusion

As stated in the prologue of this chapter, the goal of this research is not only to simply prove a hypothesized model, but it is also concerned with how to improve bank performance by building a strategic weapon from all relational variables of the three main constructs. Implications can be drawn on how to improve bank performance based on the following conclusions.

It can be surmised that bank relationships promise value creation that has a significant impact on relationship marketing. The discussion about some puzzles above has answer some questions about the poor fit of some measurement models such as monitoring; the insignificant impact between a bank relationship and organizational learning; between organizational learning and relationship marketing; and finally between relationship marketing¹⁰ with bank performance. The discrepancy between expectations and the facts stimulates further discussion in Chapter 9 within the framework of value chains of social and personal relations for many types of transactional exchanges to discover some ways to improve bank performance. Based on the puzzles in this chapter, a principal-agent relationship framework will be used in Chapter 9 to shed some light on possible undisclosed factors that hinder the flow of information from clients to BPR directors.

BPR may not be able to articulate and execute fully to an idealized organizational learning and relationship marketing that are set mainly from extant theoretical and empirical studies from the majority of commercial banks in developed countries. It is true that these studies contribute a valuable systematic frame of thinking, in which some additional factors, such as geographical proximity, hub role

¹⁰ Gilbert, D.C. and. Choi, K. C. (2003) study reveals to academics and practitioners that relationship marketing practices are not yet fully implemented in the banking industry in Hong Kong.

of an AO, and possibly some cultural elements can be included in a future study. The role of an AO as the hub between clients and directors can fit in the framework of a value chain, which is a linkage between internal (relationship) marketing and external (relationship) marketing, and principal-agency relationships as well. Worldwide development in bank relationships, relationship marketing and organizational learning disciplines with a rigorous empirical and theoretical basis have reached advanced levels. However, there is no reason to entirely discard the prevailing practice of BPR, in which they retrieve soft information directly from the AOs' memory, which is preferred to having BPR install costly and sophisticated tailor-made informational processing software. BPRs do learn from experience albeit their learning mode stays in an incremental mode (Miner and Mezias, 1996) or at a low level of learning rather than a high level (Sadler-Smith et al., 2001). Given that a relationship represents social capital as a resource that people can use¹¹ to achieve a sustainable positive performance and since there are some puzzles in the models, it is not necessary to discard the last modified model, but rather it is suggested to add some mediating factors, so that one can get a clearer picture about how to improve performance.

¹¹ although no one can "own" it individually (Portes, 1998)