Bank branches closer to their headquarters have greater performance and efficiency

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Bank branches that are geographically closer to the bank's headquarters have greater levels of output and efficiency, thus performing better than branches further away, according to new research by Durham University Business School.

The researchers say that this is likely due to branch employees working harder and more efficiently in seeking new customers and screening loan applications more carefully, as bank headquarters are able to monitor proximate branches more effectively.

The research, which explored the impact of geographical proximity of a bank branch to its headquarters on performance, was conducted by Dr Ivan Lim, Professor of Finance at Durham University Business School, alongside Louis Duc Duy Nguyen, also a Professor of Finance at Durham, and Linh Nguyen and John Wilson, both Professors of Banking and Finance at the University of St Andrews.

The researchers studied airline routes in the United States over the past two decades and identified flight route changes that led to a reduction in travel time between a number of bank's headquarters and their specific branches. The idea is that managers are more likely to visit and monitor branches when it becomes less time consuming to travel to these branches.

The study revealed that the introduction of a new airline route that significantly reduces travel time between a bank's headquarters and a branch leads to a 5.5% increase in mortgage lending volume relative to branches that were located in the vicinity, but were not affected by the introduction of new airline routes. Furthermore, these loans exhibited better performance since they were 1.7% less likely to default.

Why does closer proximity increase branch output and efficiency? The researchers say that being nearer to the headquarters likely result in branches being more heavily monitored and held to a higher standard. Therefore, branch managers and employees respond by providing better service quality and working harder and more efficiently, resulting in increased output. By contrast, distant branches are subject to less scrutiny from headquarters, and their employees are more likely to become inefficient and exert minimum work effort to "enjoy the quiet life".

"Over the past 30 years, the average distance between a bank's headquarters and its constituent branches has increased from approximately 80 miles to 350 miles." Says Ivan Lim. "While there are certainly benefits in banks expanding and increasing their geographical reach, there are also real concerns, particularly in terms of how distant branches are being overseen by headquarters. Our research suggests that mechanisms that facilitate headquarters' monitoring of its establishments, especially the more distant ones, are essential in ensuring that it operates at a high level. This is particularly important today, given that we are observing a trend of businesses becoming larger and expanding inter(nationally)."

"Additionally," Louis Nguyen emphasizes, "another takeaway of our findings is that despite rapid progress in technology in recent decades, in-person headquarters' monitoring of branches remains relevant. This suggests that in-person monitoring and communication are not perfectly substitutable by technology."

If you would like to receive the full research paper, or speak to the lead researcher, please contact Peter Remon at BlueSky Education – peter@bluesky-pr.com +44 (0) 77 235 228 30.