IS THERE A CORRELATION BETWEEN THE LEADERSHIP AND MANAGEMENT EFFECTIVENESS OF THE TOP MANAGEMENT OF A SMALL-MEDIUM SCALED COMMERCIAL BANK AND WITH ITS FINANCIAL SUCCESS?

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Abstract
Management is a variable determining the success in banking system. Micro economic variables such as liquidity, return on equity, equity capacity and asset quality are the best indicators of banking success or failure. Through the manners and decisions of the management, responsible of rendering the sources efficiently, the economic performance and business success can be increased. The management ensures its existence and authority through the economic results obtained. A management failing to produce economic results is failing itself. In my doctorate thesis dated 1998,I examined through a survey the behaviors, characteristics, approaches in decision making process and managerial roles of small-medium scaled banks managers, and through comparing the survey results with the financial performance indicators of each administrators working period, I underlined the correlation between the banks economic performance and the success of the top management. In this study, I re-conducted my survey with one of the banks participating to it in 1998 and compared the final results. This study deals mainly with how the manners of managers may be related to economic success of the bank and whether there are major differences between 1998 and 2011.

Keywords: Management, Banking, Leadership

Jel Code:M10

1. INTRODUCTION

This study is a recent repetition of a survey conducted 11 years ago, part of my doctorate thesis entitled “The importance and effect of top managements’ roles and approaches in decision making process in the performance of small-medium scaled commercial banks”, dated 1998.

The aim of this study is to analyse the self-portraiture of top managers administrative roles and their results on the banks' financial performance, through comparing the survey results of a bank part of the Turkish Commercial Banking system, which was in the 9th range in 1998 as per the active growth rate, descending to the 23rd row in 2010, and observe whether there are changes in the answers and results of the same survey conducted 11 years ago.

The top management, responsible of rendering the sources efficiently, is affecting the economic performance with its behaviours and decisions. A management failing to produce economic results is failing itself.

The financial performance of banks has been studied through variables such as liquidity, return on equity (ROE), return on asset (ROA), equity capacity (EC) and asset quality (AQ). Those indicators were compared with the recent answers of each administrator's and statistically analysed in case any differences were found between the results of the survey conducted 11 years ago.

Correlation analysis, student t-test and linear regression analyses were used to find out if there are significant differences and/or relations among groups and/or variables. Based on the managerial roles introduced by Mintzberg in 1960 and utilizing the neuropsychological model dated 1990 of Taggart and Valenzi, aiming to evaluate the intellectual features of administrators, eleven independent parameters defining the behaviours of managers and five dependent bank performance parameters were set.

As the result of the analysis, we may observe a positive correlation between the "Procedure Centred" and "Planning" variables and the bank performance criteria "Return on Equity" (ROE) in 1998. In 2010, we may observe the negative effect of the "Procedure Centred" variable on the "Liquidity" ratio and its positive effect on the "Return on Equity". On the other hand, it is possible to observe the negative effect of "Planning" on the EC and ROE.

2. THE POSITION OF THE BANKING MANAGEMENT AND TURKISH COMMERCIAL BANKING INTO THE TURKISH BANKING SYSTEM

The banks, one of the most important players of the financial system, are irrevocable components of the general economic politics, and especially of the money policy.

Banking management is a branch of management including the rules of calculation and registration of the foundation, organization, management and any type of activities of the economic units dealing with money, credit and capital. (Eyüpgiller, 1988:25)
Unlike other businesses, banks should highly rely on the principles of rentability, liquidity and risk distribution.The laws are requiring the banks to always have liquid assets or cash flow to recompense their debts, differently from other business. (Eyüpgiller, 1988:37)
Banks are different from other commercial corporations also in terms of establishment, amount of capital, management of funds, liquidation and auditing.
Commercial Banks are banks with numerous branch offices using the funds composed by the deposits of savings, for short term or middle-short term credits. Commercial Banks are portrayed as institutions insuring an important part of their deposits from the private sector and loaning short term money to the private sector. (Hatipoğlu, 1967:8) Commercial Banks are institutions specialized in demand deposits and commercial credits.

Nowadays, Commercial Banks are fulfilling all the banking functions, except the activities of the Central Bank. The main function of Commercial Banks is to secure the fund flow between the economic units with savings surplus and the ones facing saving shortages. In addition to the fund provision and usage function, the Commercial Banks are also responsible for services such as domestic payments, international payments, security reserve funds, coffer hirings, pay outs and intermediation for collection of liens from third parties.

The balance growth of deposit banks has increased of about 21% in 2011. Eighteen out of thirty two deposit banks operating in the sector have grown above the average. While the balance growth of eleven deposit banks has increased fewer than 21%, the balance of three banks has diminished. Starting from December 2001, the ROE of deposit banks is around 14, 8%. While the ROE of nine banks is above the average, two banks are bearing a loss. The average capital adequacy ratio(CAR) is about 15, 5%.The CAR of twenty three banks is above the average. Offset for 80% of non-accruing liens of deposit banks has been allocated.

The ratio of non-accruing liens after offset over total loans is around 0, 5. While this ratio is above the average for eighteen banks, it is zero for five. (Our Banks 2011; I-8-10)

3. MANAGEMENT, LEADERSHIP AND BANK MANAGEMENT

3.1. MANAGEMENT AND LEADERSHIP

Management is defined as a universal process, an art as old as the communal life and an ongoing science. When analysed through those three dimensions, management, as a process, frames activities and functions, as an art, an application and as a science, an ensemble of systematic and scientific facts. The basic feature of management as a science branch and appliance area is its application combining facts and analytical methods through various disciplines. The manager should approach the business as a whole and with its sections. Additionally, the manager should also use and implement the various facts and technics in accordance with the existing conditions. (Mucuk, 1997:136)

Management is the result of the efforts of achieving the collaboration among people. In other words, achieving goals by the mediation of others is bringing forth the management process. (Tosun, 1974:5)

The management, responsible of rendering the sources efficiently, creates economic results with its existence and authority. In a competitive economy, the qualifications and performances of managers are defining the businesses' success. In such a context, good managers are the most important assets an organization can have. (Drucker, 1996:4)

The common ground of definitions is that management should be handled as a process and a cooperation to achieve a common purpose. To perform their functions in an effective and efficient way, the managers are effectuating various activities having technical, conceptual and human dimensions. By the end of the 1960's, the well-known academician and theorist Prof. Henry Mintzberg has brought out ten important executive roles after huge inquiries and thousands of surveys. Mintzberg is analysing the roles of managers under three categories. (Robbins, 1997:37)

- Interpersonal Roles (Figurehead / Leader / Liaison)
- Informational Roles (Monitor / Disseminator / Spokesman)
- Decisional Roles (Entrepreneur / Disturbance handler / Resource Allocator / Negotiator)

In his study entitled "Your Managerial Activities" dated 1989, Stanley Slater has prepared a survey of 29 questions evaluating the management performance. Five correlated roles (Entrepreneurship, Resource Allocator, Monitor, Liaison and

Spokesman) have been re-tested. (Slater, 1989:441) A part of our survey is made up by the 29 questions of Slater. Through those questions, the managerial activities of administrators are going to be analysed.
"Decision Making", one of the basic functions of management, is the most important activity of the administrator. (Starr, 1971:119)
"Decision Making" can either lead an organization to success or failure. Psychologists are having various studies about that fact. In his book entitled "Psychological Types" dated 1921, the Swiss psychologist Carl Jung underlined two personality types;

1- Extrovert (The case when ones' personal interests are headed to objective and communal environment, instead of its own feelings and thoughts)
2- Introvert (The case when ones' attention and interestis headed to its own feelings and experiences, instead of its environments)

In 1990, Taggart and Valenzi have upgraded the model of two personality types of Jung to a new model of 6 types. Below, you may observe the chart showing the "Rational" and "Intuitive" dimensions of leadership attitudes and preferences.

Figure (1) A metaphor for human information processing

RATIONAL STYLE	**INTUITIVE STYLE**
How do you solve problem?	
ANALYSIS analyse organize control	INSIGHT explore pattern synthesize
How do you prepare for the future?	
PLANNING propose predict design	VISION imagine forsee invent
How do you approach work ?	
CONTROL (procedure centered) conform possess prohibit	SHARING (people centered) associate co-operate share

Source: Taggart, W., Valenzi,E., "Assessing Rational and InstuitiveStyles:A Human Informatıon Processing Metaphor", Journal of Management Studies, March 1990,V:27.2, s:159

In order to frame the administrators' decision making attitudes, a 6 modes model, with 5 questions for each mode and with a total of 30 questions is used. The managers are valued in terms of their rational-intuitive attitudes. Hereby, the weaknesses and strengths of managers in problem solving and decision making are going to arise and needed measures to prevent those will be implemented.
The other part of our survey is constituted of the 30 questions survey of Taggart & Valenzi.

3.2. THE MANAGEMENT AND PEREFORMANCE OF THE BANK

In order to achieve high performance, a bank should recognize very well the risks in the industry and take high risks for higher income. Unfortunately, the capital structure of banks cannot overcome two consecutive bad years. The often failure of banks due to mistakes and negligence's' make them lose their credibility. When banks, described as trust institutions, lose their customers' trusts, they are automatically losing their chance of surviving. Each activity a bank is doing has a risk level and of course, correspondingly, a level of income. Banks should create an optimum balance between risk and income.

The more important risks banks can confront are the decrease of equity capital due to the decrease of active assets and the confinement of growth due to the decrease of capital structure, leading to the loss of credibility. Another risk is the volume of foreign sources among the banks sources. The withdrawal of those sources can cause huge problems for the banks. Banks not performing their activities efficiently are banks with low profitability level and high risk level. A bank that cannot achieve the balance between risk and income is a risky, and probably one that will face commercial failure.

A good management should know very well the risks a bank can face and prepare the asset and liability statement accordingly. To achieve the targeted earning is a must. The management should maximize the equity capital profitability while considering this balance and the demands of each interest group.

According to the Finance Theory, in order to be better than other banks, the bank management should maximize the income as per a specific risk level or minimize the risk degree as per a specific income level. Thus, the earnings of equity owners will ameliorate. Earning is a function of risk and income. As is it for other businesses, the performance level of the banking system will include risk and

income components such as capital level, liquidity, financial leverage, investments, active profitability and capital profitability. (Ağaoğlu, 1994:74)

Five ratios are used as banks' performance indicators in this study;

- **Liquidity Ratio**: A concept about the capability of undertaking cash liabilities that are overdue. (Liquid Actives / Total Actives)
- **Return on Asset Ratio (ROA) :**This ratio is the indicator of how much profit a banks' management can create with its own assets. (Net Profit / Average Actives)
- **Return on Equity Ratio (ROE)**:A ratio measuring the profitability of equity owners. (Net Profit / Equity Capital)
- **Equity Capacity Ratio (EC)**: Permits to protect the deposit owners and other creditors in case of a decrease in the value of assets or the loss of the bank. (Equity Capital / Total Actives)
- **Asset Quality Ratio (AQ)**:Attaches the banks' equity capitals and foreign sources to various assets. Criterions as whether money is bringing revenue or not, the magnitude of the revenue and assiduity are considered. (Credits / Total Actives) (Arman, 1997:214)

4. IMPLEMENTATION

4.1. THE AIM OF THE STUDY

The aim of this study is to examine by utilizing a survey on small-medium scale bank managers the behaviors, characteristics, approaches in decision making process and managerial roles of those managers and comparing them to the selected financial performance indicators of the bank during the managers' working period. Statistical analyses were made by using PASW 19 package program of IBM SPSS.

4.2. METHOD

Correlation analysis, student t-test analyses and linear regression analyses were used to find out if there are significant differences and/or relations among groups and/or among variables.

For this purpose, previous study conducted in 1998 on then-managers of the bank were repeated in 2011 on the new-managers and the results were compared to see if there is a change between the managerial roles, behaviors and decision making processes of managers of two different periods. Five top managers of the bank in

1998 had been surveyed and seven top managers of the bank has been surveyed in 2011 by asking the same twenty-nine questions for determining their managerial roles in the bank and the same thirty questions for determining their decision making processes were asked.

Our hypotheses can be stated as follows:

H_1: There are differences between the two periods examined in terms of managerial roles, and decision making approaches of managers.

H_2: Within the same period, managerial roles and decision making approaches of managers have effects on selected financial performance indicators of the bank.

4.3. RESULT

First of all, the managerial roles, and decision making approaches of managers were compared in the two periods by using Student t-test analyses.

Table 1: Group Statistics

	Period	N	Mean	Std. Deviation	Std. ErrorMean
SPOKESMAN	1998 Period	5	4,280	,7294	,3262
	2011 Period	7	3,457	,4429	,1674

Table 2: Independent Samples Test

		Levene's Test forEquality ofVariances		t-test forEquality of Means						
		F	Sig.	T	Df	Sig (2-tailed)	Mean Difference	Std. Error Difference	95% confidence Interval of the Difference	
									lower	Upper
Spokes Man	EVA	2,229	,166	2,444	10	,035	,8229		,0728	1,5729
	EVNA			2,244	6,103	,065	,8229	,3666	-,0706	1,7164

EVA : equal valence assumed **/ EVNA**: equal valence not assumed

According to the results, in "spokesman" factor of managerial roles, there is a significant difference (p=0,035; t=2,444) between periods of 1998 and 2011 (See Table 1 and Table 2).

For any other factors representing the managerial roles, and decision making approaches of managers, there were no significant difference in both of the periods. When we look at the linear regression analyses in which the selected financial performance indicators of the bank are taken as dependent variables and the factors representing the managerial roles, and decision making approaches of managers are taken as independent variables for each period.
In regression analyses below, stepwise method is used to see if any independent variable will enter the model or not.

- The First analysis is performed to find a regression model of **"Equity Capacity"** ratio in the 2011 period.

Table 3: ANOVA[d] Results

Model		Sum of Squares	Df	MeanSquare	F	Sig.
1	Regression	5,175	1	5,175	186,582	.005[a]
	Residual	,055	2	,028		
	Total	5,230	3			
2	Regression	5,230	2	2,615	9250,063	.007[b]
	Residual	,000	1	,000		
	Total	5,230	3			
3	Regression	5,230	3	1,743	.	.[c]
	Residual	,000	0	.		
	Total	5,230	3			

a.Predictors: (Constant), Control_2
b. Predictors: (Constant), Control_2, Planning_2
c. Predictors: (Constant), Control_2, Planning_2, Insight_2
d. DependentVariable: equity capacity_2

For 2011 period, in Table 3, results revealed that in the second iteration, the model for the dependent variable "equity capacity" has significant
p value=0,007 with F=9250,063.

So according to Table 4, the model is as follows:
Y_{EC}=1,609 + 2,735$X_{Control}$– 0,214$X_{Planning}$
With t=19,910 and p=0,032 for the constant, t=130,830 and p=0,005 for the independent variable "control", t=-13,972 and p=0,045 for the independent variable Planning.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.995[a]	,989	,984	,1665
2	1.000[b]	1,000	1,000	,0168
3	1.000[c]	1,000	.	.

a. Predictors: (Constant), Control_2
b. Predictors: (Constant), Control_2, Planning_2
c. Predictors: (Constant),Control_2, Planning_2, Insight_2

The model Summary shown in Table 4 assures that the second iteration of the model has very high R value=1,000 and Adjusted R-square value=1,000 which indicates a very high coefficient of determination. This means that in 2011 period the "Equity Capacity" ratio is depending positively on "control" decision making approach and negatively on "Planning" decision making approach. In other words, managers using "control" approach in their decisions processes are likely to have positive effect on the "Equity Capacity" ratio of the bank, while managers using "Planning" approach in their decisions processes are likely to have negative effect on the "Equity Capacity" ratio of the bank.

- The second analysis is performed to find a regression model of "**Liquidity**" ratio in the 2011 period.

Table 5: ANOVA[b]Results

Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	24,711	1	24,711	315,188	.003[a]
	Residual	,157	2	,078		
	Total	24,868	3			

a. Predictors: (Constant), Control_2
b. DependentVariable: Liquidity_2

For 2011 period, in Table 5, results revealed that in the first iteration, the model for the dependent variable "Liquidity" has significant p value=0,003 with F=315,188. So, the model is as follows:

$Y_{Liquidity}$=51,380-5,740$X_{Control}$

With t=48,469 and p=0,000 for the constant and t=-17,754 and p=0,003 for the independent variable "Control"

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.997[a]	,994	,991	,2800

a. Predictors: (Constant), Control_2

The model Summary shown in Table 6 assures that the first iteration of the model has very high R value=0,997 and Adjusted R-square value=0,991 which indicates a very high coefficient of determination. This means that in 2011 period the "Liquidity" ratio is depending negatively on "Control" decision making approach. In other words, managers using "Control" approach in their decisions processes are likely to have negative effect on the "*Liquidity*" ratio of the bank.

- The third analysis is performed to find a regression model of "**return on equity**" ratio in the 2011 period.

Table 7: ANOVA[b]Results

Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	14,529	1	14,529	493,692	.002[a]
	Residual	,059	2	,029		
	Total	14,588	3			

a. Predictors: (Constant), Planning_2
b. DependentVariable: return on equity_2

For 2011 period, in Table 7, results revealed that in the first iteration, the model for the dependent variable "*return on equity*" has significant p value=0,002 with F=493,692. So according to Table 7, the model is as follows:

Y_{roe}=29,560 - 3,221$X_{Planning}$

With t=41,308 and p=0,001 for the constant and t=-22,219 and p=0,002 for the independent variable Planning.

Table 8: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	29,560	,716		41,309	,001
	Planning_2	-3,221	,145	-,998	-22,219	,002

a. Dependent Variable: return on equity_2

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.998[a]	,996	,994	,1715

a. Predictors: (Constant), PLANNİNG_2

The Model Summary shown in Table 9 assures that the first iteration of the model has very high R value=0,998 and Adjusted R-square value=0,994 which indicates a very high coefficient of determination. This means that in 2011 period the "return on equity" ratio is depending negatively on "Planning" decision making approach. . In other words, managers using "Planning" approach in their decision processes are likely to have negative effect on the "return on equity" ratio of the bank.

- The Fourth analysis is performed to find a regression model of "**return on equity**" ratio in the 1998 period.

Table 10: ANOVA[d]Results

Model		Sum of Squares	df	MeanSquare	F	Sig.
1	Regression	93,382	1	93,382	289,353	.003[a]
	Residual	,645	2	,323		
	Total	94,027	3			
2	Regression	94,027	2	47,013	84624,250	.002[b]
	Residual	,001	1	,001		
	Total	94,027	3			
3	Regression	94,027	3	31,343	.	.[c]
	Residual	,000	0	.		
	Total	94,027	3			

a. Predictors: (Constant), Control_1
b. Predictors: (Constant), Control_1, Planning_1
c. Predictors: (Constant), Control_1, Planning_1, spokesman_1
d. DependentVariable: return on equity__1

For 1998 period, in Table 10, results revealed that in the second iteration, the model for the dependent variable "return on equity" has significant p value=0,002 with F=84624,250. So according to Table 13, the model is as follows:

Y_{roe}=70,159 + 7,046$X_{control}$+ 1,046$X_{planning}$

With t=479,560 and p=0,001 for the constant, t=369,139 and p=0,002 for the independent variable "Control", t=34,071 and p=0,019 for the independent variable Planning

Table 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of theEstimate
1	.997[a]	,993	,990	,5681
2	1.000[b]	1,000	1,000	,0236
3	1.000[c]	1,000	.	.

a. Predictors: (Constant), Control_1
b. Predictors: (Constant), Control_1, Planning_1
c. Predictors: (Constant), Control_1, Planning_1, spokesman_1

The model Summary shown in Table 11 assures that the second iteration of the model has very high R value=1,000 and Adjusted R-square value=1,000 which indicates a very high coefficient of determination. This means that in 1998 period the "return on equity" ratio is depending positively on "Control" and "Planning" decision making approaches. In other words, managers using both approaches in their decision processes are likely to increase the "return on equity" ratio of the bank.

5. CONCLUSION

The results of our survey will be much more significant if we analyse the economic events happening in the years covering our study with its main features.

The main economic problems of the 1990's are the instable growth, high inflation rate and the financing of public deficit. Between the years 1990 and 2001, the growth rate was fluctuating between %9 to -%9. The instability in the growth of the gross national product has also obstructed the growth of the banking sector. By increasing the economic obscurities and risk premium, this situation has affected negatively the long term production, investment, savings and expenditure outgoings. During this period, three very important crisis occurred (1994-1999-2001). Considering the consumer prices between 1990-1999, the annual price increase is about %80. The worst effect of inflation is preventing the market

mechanism to work properly. Additionally, it also prevents the efficient use of TL sources – already meagre. Between the years 1990-2001, the government deficits have ascended increasingly. The domestic government bonds with high earnings and low risks have rendered impossible the export of fixed yield financial instruments. (TBB, 2008:23-26)

With the beginning of the years 2000, the capital structure of the Turkish Banking sector has been strengthened, the number of banks has decreased and the establishment of new banks has been made difficult. The impacts on Turkey of the 2008 global crisis have been highly important. The economy has diminished of %6 in 2009. On the contrary, the banking sector has grown in this period. Between the years 2008-2010, the very fast growing banking sector has been accused of ascending the import by financing the consumer banking activities and automotive consumption. (Altınok, T. ve Diğ., 2011:224)

Under these circumstances and based on the results of our survey dated 1998, it is possible to observe that control and planning have both positive effects of the return on equity (ROE), while others variables have no effect at all. On the other hand, the results of the survey dated 2011 are underlining the fact that the procedure centered managers, instead of the people centered one, have negative effects on the liquidity but positive effects on the equity capacity. However, the fact that managers lack the skill of preparing future scenarios, have weak vision and prevision competences have negative effects on equity capacity (EC) and return on equity (ROE).

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