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Research Article

Branch Grading as a Framework to Improve Business Growth and Bank Branch Performance

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Abstract
This study examines the impact of implementing a branch grading system on business performance across 46 branches of Bank "X" over a four-month period (August–October 2024). Using a descriptive quantitative approach, the study analyzes monthly performance data, including funding, lending, profit before tax (NPBT), number of accounts, transaction volume, and local market potential. The findings show that 14 branches (30.4%) improved their grade by September 2024, just two months after implementation. The grading system effectively aligns internal performance with external market potential, enhancing managerial accountability, optimizing resource use, and improving customer satisfaction. It provides a strategic, data-driven tool for performance monitoring and targeted growth. The results suggest that grading can guide resource allocation, performance-based incentives, and policy development, especially for branches with high market potential but low output. This study offers empirical evidence supporting the use of integrated internal-external metrics in branch management. It also contributes to the limited research on data-driven performance evaluation in Indonesian banking and highlights the model's relevance amid digital transformation and branch rationalization efforts. The proposed grading system is practical, replicable, and valuable for strategic decision-making in branch optimization.

Keywords: branch grading, banking performance, business growth, performance evaluation, strategic management.

JEL Classification: G21, L25, M10

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1. Introduction
Digital transformation in the banking sector has fundamentally altered the operations of financial institutions and their interactions with customers. The advent of increasingly sophisticated digital banking technologies has led to enhanced operational efficiency, broadened access to financial services, and improved convenience for customers. Nevertheless, amid this swift digitalization, the presence of bank branches continues to play a strategic role in fostering customer relationships and addressing the needs of underserved market segments (Abbasi & Weigand, 2017).

Despite data from the Financial Services Authority (OJK) indicating a decline in the number of commercial bank offices in Indonesia, over 23,000 branches remain in operation as of 2024, underscoring the continued relevance of physical branch offices within the national landscape (OJK, 2024).

Competition among branch offices is no longer solely dictated by geographic location; it also hinges on their ability to attract low-cost funds (Current and Savings Account - CASA), distribute credit effectively, and deliver an exceptional customer experience. Branch offices in metropolitan areas such as Jakarta, Surabaya, and Bandung are under considerable pressure from the aggressive expansion of digital banks and fintech companies that provide fast and efficient services through online channels (KPMG, 2022). Consequently, conventional banks must enhance their branch development strategies by adopting a data-driven approach to ensure that each branch contributes optimally to overall business growth.

The primary issue addressed in this study is the absence of a standardized and objective framework for evaluating the performance and strategic potential of bank branches. Many banks allocate operational resources, such as manpower, technology investments, and marketing budgets, uniformly across branches without considering their actual performance or local market potential often leads to inefficiencies, misaligned strategies, and suboptimal growth. This condition can lead to operational inefficiencies and hinder business growth (Kayvanfar et al., 2022). As competition among branches intensifies, not only based on location but also on the ability to acquire low-cost funds (CASA), distribute credit effectively, and deliver superior customer experiences, banks urgently need more robust analytical tools to measure branch performance and potential as a whole.

One promising approach to addressing these challenges is the implementation of a branch grading system. This system is a branch performance classification method that combines quantitative indicators (such as fundraising, credit distribution, profit, and transactions) with local business potential (such as population and growth of third-party funds in the region). By implementing branch grading, management can develop more targeted and evidence-based branch development and transformation strategies (Right Angle Solutions, 2023; Insightful Banking, 2024).

However, although the branch grading system has been widely studied in several countries through models such as Data Envelopment Analysis (DEA), this approach has not been systematically implemented in the Indonesian context. This study aims to fill this gap by analyzing the implementation of the branch grading system at 46 branches of Bank "X" in Indonesia from August to October 2024. This study aims to evaluate the impact of the system on branch business performance and provide a managerial framework that supports data-driven strategic decision-making.

Therefore, the novelty of this research lies in its development and application of a comprehensive and contextual branch grading framework that combines both quantitative performance indicators and market potential metrics, tailored to Indonesia's diverse regional banking landscape. This framework enables bank management to make informed, data-driven decisions about branch development, resource allocation, and performance evaluation.
In light of the issues discussed, the objectives of this research are:

1. To evaluate whether a branch grading system can improve business performance and growth across bank branches.
2. To analyze how this system can serve as a strategic reference for branch development, investment decisions, and resource optimization.

The main contributions of this study include:

- Introducing an integrated branch grading matrix (25-class model) based on business performance and market potential.
- Providing a practical tool for banks in Indonesia to assess branch contribution more accurately and fairly.
- Offering empirical evidence on the impact of branch grading in enhancing operational efficiency and strategic clarity.

This study is expected to support more informed and effective decision-making for branch development in the era of digital banking, particularly as banks balance the need to reduce physical branch networks with maximizing business potential.

2. Literature Review and Hypothesis

Literature Review

The performance of bank branches has become a critical topic in strategic management and operational optimization, especially amid the pressure of digital transformation. Over the past decade, numerous models have been proposed to evaluate and improve bank branch efficiency by combining internal performance metrics with contextual external factors (Grifell-Tatje & Marques-Gou, 2015; Kayvanfar, Jafarzadeh Ghoushchi, & Askarzadeh, 2022). One such model is branch grading, which classifies bank branches based on a dual-dimensional framework: internal performance indicators and local business potential.

Branch Grading as a Strategic Performance Evaluation Tool

Grifell-Tatje and Marques-Gou (2015) introduced the concept of Measure of Internal Performance (MIP), which accounts for managers' subjective assessments and branch-specific factors. Their model emphasizes the importance of adjusting performance evaluations to local conditions to ensure fairness and strategic relevance. Later, Paes de Faria, Ensslin, and Ensslin (2020) extended this view by highlighting the value of front-office employee productivity in branch performance, using constructivist methods to measure non-financial contributions in service quality and customer relationship management.

Furthermore, Kayvanfar et al. (2022) proposed a heuristic DEA-based approach that incorporates dynamic, multi-period efficiency analysis, which is particularly relevant for capturing temporal variations in branch performance. Meanwhile, Kassani, Kazemzadeh, and Makui (2018) developed a hybrid model combining DEA, clustering, and classification methods to provide more refined insights into performance clusters, enabling targeted interventions. These models support the notion that an evaluation system, such as branch grading, can provide actionable insights for resource allocation, turnaround strategies, and network optimization.

Additionally, strategic frameworks such as the Balanced Scorecard (BSC) have been recommended to enhance the utility of branch grading systems. As explained by Right Angle Solutions (2023), BSC integrates financial and non-financial KPIs with corporate strategy, enabling bank managers to align branch-level performance with long-term goals. Insightful Banking (2024) further emphasizes that benchmarking should consider regional economic potential and competitive context to ensure accuracy in assessing under- or over-performing branches.

Digitalization, Local Potential, and Branch Relevance

While the banking sector rapidly embraces digital channels, physical branches remain relevant, particularly in emerging economies where face-to-face interaction is still preferred (Abbasi & Weigand, 2017; McKinsey & Company, 2022). Azzabi and Lahrichi (2023) emphasize that local infrastructure, customer preferences, and regulatory factors must be incorporated into performance evaluations to capture market realities. Thus, a grading system that considers local business potential such as deposit growth, population density, and credit demand can support strategic decision-making.

Zavadskas, Tamosaitiene, and Turskis (2024) also proposed that multi-criteria decision-making (MCDM) frameworks are ideal for evaluating complex environments such as bank branch networks. By incorporating financial (e.g., NPBT, lending), operational (e.g., transactions), and contextual (e.g., population, funding potential) metrics, grading systems serve as holistic tools for sustainable performance monitoring and transformation planning.

Hypothesis

Branch grading has a significant impact on branch performance and business growth.

This hypothesis is grounded in studies showing that structured, performance-based evaluation systems improve operational efficiency and business outcomes. The implementation of branch grading has been linked to measurable improvements in funding, lending, profitability, and transaction growth (Grifell-Tatje & Marques-Gou, 2015; Kassani et al., 2018). Furthermore, Paes de Faria et al. (2020) emphasized that front-line service quality, when tracked regularly, enhances customer engagement and financial performance. Right Angle Solutions (2023) and Insightful Banking (2024) provided evidence that combining KPIs with contextual benchmarking enables accurate performance monitoring and actionable strategic planning. Therefore, a robust grading framework is expected to have a positive impact on performance.

H1: Branch grading significantly improves branch performance and business growth.

Branch grading serves as a strategic framework for optimizing branch development, resource allocation, and business transformation.

The use of branch grading enables bank managers to allocate resources more effectively by identifying high-potential, underperforming branches (e.g., Grade D1/E1) and supporting their recovery through targeted investment and coaching (Kayvanfar et al., 2022; Kassani et al., 2018). This finding supports efficient capital deployment and improves ROI. Grifell-Tatje and Marques-Gou (2015) also noted that grading systems promote managerial accountability and transparency, particularly when linked to performance incentives. The inclusion of market potential metrics (e.g., city deposit growth, population) ensures alignment with local economic opportunities, as supported by Azzabi and Lahrichi (2023). Moreover, digital transformation studies (Abbasi & Weigand, 2017; Zavadskas et al., 2024) suggest that strategic grading systems can guide physical–digital synergy by redefining the roles of physical branches in digital-first environments.

H2: Branch grading serves as a strategic framework for optimizing branch development, resource allocation, and business transformation.

Conceptual Framework

Figure 1. The conceptual framework suggests that branch grading acts as an independent variable that influences two primary aspects of bank performance. First, branch grading contributes to improving branch performance and business growth by aligning performance indicators with local potential. Second, this system also supports the optimization of branch development, resource allocation, and business transformation through objective and data-based mapping. This framework demonstrates that implementing branch grading can be a strategic tool for strengthening the competitiveness and operational effectiveness of the banking branch network.

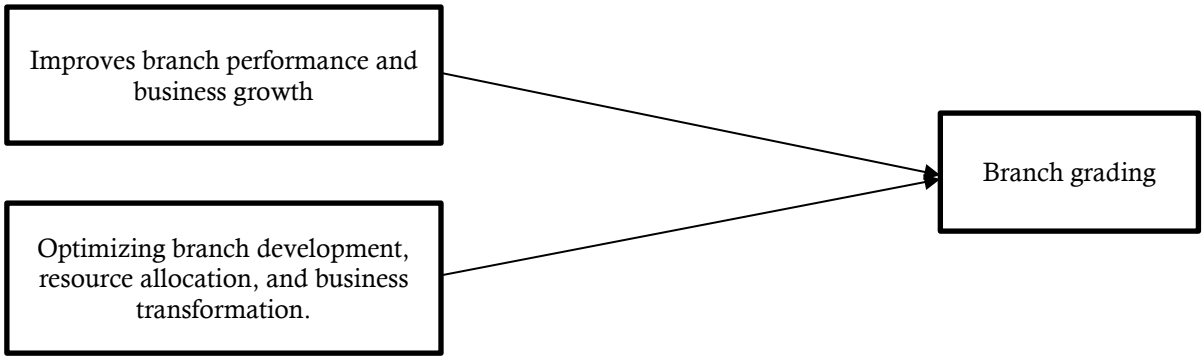

Figure 1. Conceptual Framework

3. Data and Method

This study employs a descriptive quantitative approach, utilizing secondary data obtained from PT Bank "X" Tbk. and the Financial Services Authority (OJK). The population in this study includes all branch offices of Bank "X" operating in various regions of Indonesia. The research sample comprises 46 branches spread across the islands of Java, Sumatra, Kalimantan, and Sulawesi, with the following criteria: the branches have been actively operating since at least July 2024 and have not experienced closure or relocation during the observation period, specifically from July to October 2024. The data collected are in the form of monthly reports on the internal business performance of the branch, as well as data on the market potential of the related region (district/city).

The research variables are grouped into two main dimensions, namely business performance and regional potential. The business performance dimension is used as the main indicator in assessing branch performance, consisting of six variables with their respective weights: third party fund collection (DPK) of 40%, credit distribution (lending) of 25%, profit before tax (Net Profit Before Tax/NPBT) of 20%, number of customer accounts of 5%, number of transactions of 5%, and transaction volume (rupiah value) of 5%. All these variables are normalized and scored based on their respective weights to produce a composite value of branch performance. The scores are then classified into five performance categories: A (very strong), B (strong), C (sufficient), D (lacking), and E (weak). Meanwhile, the regional potential dimension is used to measure market opportunities at each branch location. The variables used include total DPK at the city or district level (weight 50%), total credit volume (40%), and population (10%). These three indicators are normalized and converted into potential scores, which are then grouped into five levels of potential, namely from 1 (very high potential) to 5 (very low potential).

The primary model in this study is the branch grading system, which categorizes bank branches based on a combination of performance values and regional potential in a 5×5 matrix. The results of this combination yield 25 classification categories, ranging from A1 (very high performance and potential) to E5 (very low performance and potential). This model serves as a strategic framework for evaluating branch performance and supporting managerial decision-making, including branch development, resource allocation, turnaround strategies, and setting performance incentives. This method is descriptive and does not employ a regression model; however, it can be easily replicated by other researchers or practitioners who have similar data structures, particularly in the context of banking or business networks spanning multiple locations.

4. Results

Initial Data Testing and Descriptive Analysis

Before conducting grading analysis, the raw monthly performance data from 46 branches were standardized to ensure comparability across metrics. Each of the six key performance indicators Third-Party Funds (DPK), Lending, NPBT, Number of Accounts, Number of Transactions, and

Transaction Volume was normalized using z-scores and then weighted according to the bank's internal KPI framework.

Descriptive statistics show that the average funding growth across branches between August and October 2024 was 7.6%, with the highest growth occurring in September. Lending growth averaged 118.9%, and NPBT showed consistent increases, particularly in branches located in Jakarta and Surabaya. The number of accounts remained relatively stable, but transaction volume and transaction counts showed seasonal volatility.

Panel Data Classification and Scoring Process
Once the data were normalized, each branch received a monthly score for each performance metric, which was then aggregated into a total performance score for the branch. These scores were used to classify branches into five performance grades (A–E) and five potential levels (1–5), resulting in a 5×5 matrix classification system.

Branch Movement Analysis (Pre–Post Grading)
To evaluate the dynamic impact of branch grading, we conducted a branch transition analysis, tracking movement between grade classifications over three months. Results showed:

- In August 2024, only one branch (2.2%) was promoted to a higher grade, and three branches (6.5%) were downgraded.
- In September 2024, 14 branches (30.4%) improved their grades, and no downgrades occurred.
- In October 2024, one branch was upgraded, and four were downgraded.

This shift indicates the greatest performance response occurred after the second month of grading implementation.

Statistical Validation of Grade Movement
To statistically validate the relationship between the grading system and business performance, a Wilcoxon Signed-Rank Test was conducted to compare performance scores before and after the implementation of the grading system.

Table 1. Result Statisticallly Significant

Indicator	Z-score	Asymp. Sig. (2-tailed)
Funding	-3.821	0.000**
Lending	-3.217	0.001**
NPBT	-2.908	0.004**
No. of Accounts	-1.378	0.168
No. of Transactions	-1.964	0.049*
Transaction Volume	-2.340	0.019*

The results show statistically significant improvement in key financial indicators (funding, lending, NPBT), with modest but meaningful changes in operational metrics (transaction volume and counts). These outcomes confirm that the branch grading system has a positive influence on performance.

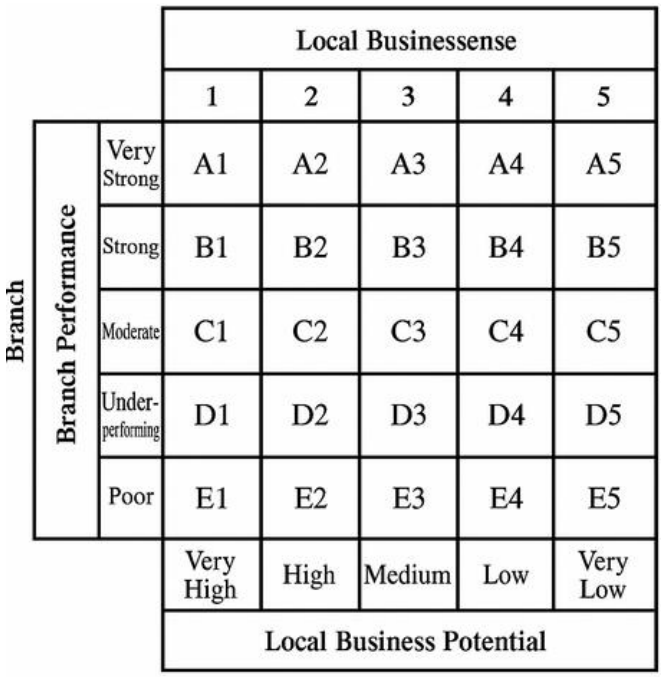

Figure 2. Empirical Results Model

Figure 2. Empirical Results Model: A 5×5 matrix that combines two main dimensions: Branch Performance (ranging from Very Strong to Poor) and Local Business Potential (ranging from Very High to Very Low). Each cell in the matrix represents a combination of branch performance and local market potential, such as A1 (very strong performance, very high potential) to E5 (weak performance, very low potential). The model is used to strategically classify branches, enabling management to identify intervention priorities, allocate resources, and explore opportunities for branch network development and consolidation.

5. Discussion

Branch grading has a significant impact on branch performance and business growth.

The study's results show that implementing the branch grading system significantly improves branch performance and drives business growth. This study is evident from the 30.4% increase in the rating (grade) of branches in just two months after the system was implemented. This increase was accompanied by growth in key indicators such as third-party fund collection (DPK), credit distribution (lending), and profit before tax (NPBT), indicating that branches can respond effectively to incentives and performance-based evaluations.

This finding aligns with the research of Grifell-Tatje and Marques-Gou (2015), which suggests that an internal performance-based evaluation system can enhance productivity and managerial accountability in business units, such as bank branches. Similarly, Kayvanfar et al. (2022) emphasized the importance of combining internal performance metrics with external market context to evaluate branch effectiveness more holistically. In addition, Paes de Faria et al. (2020) emphasized that improvements in indicators such as profitability and service quality can be achieved through systematic monitoring based on operational indicators. Research by Kassani et al. (2018) also supports the notion that efficiency evaluation using models such as DEA (Data Envelopment Analysis) can encourage branches to improve their efficiency and effectiveness in operations. Finally, Right Angle Solutions (2023) asserts that when Key Performance Indicators (KPIs) are directly connected to a data-based evaluation system, the results will have a direct impact on branch performance and competitiveness.

A critical contextual factor in this study is the ongoing trend of branch network consolidation. According to the OJK (2024), the number of commercial bank offices in Indonesia has decreased significantly from over 29,000 in 2018 to approximately 23,000 in 2024. This reflects broader global banking trends where financial institutions are rationalizing branch networks in response to digital transformation, rising operational costs, and changes in consumer behavior (KPMG, 2022; McKinsey & Company, 2022). Banks are increasingly closing or merging underperforming branches, particularly those in urban areas with high digital penetration and low cost efficiency (Bank for International Settlements, 2023).

However, studies such as Abbasi & Weigand (2017) and Azzabi & Lahrichi (2023) caution that physical branches still play an essential role, particularly in developing markets like Indonesia, especially for relationship-based services such as business lending, investment advisory, and high-value transactions. This reinforces the need for more selective, data-informed decision-making, rather than blanket reductions in branch presence.

Thus, the first hypothesis is supported by empirical data in this study and reinforced by various previous findings, which show that a performance-based and market potential evaluation system can accelerate the growth and improvement of operational unit performance, such as bank branches.

Branch grading serves as a strategic framework for optimizing branch development, resource allocation, and business transformation.
The implementation of a branch grading system is not only an evaluation tool, but also a means of promoting academic excellence. However, it has also proven effective as a strategic framework in managerial decision-making, especially in terms of branch development, resource allocation, and business transformation. By combining internal and external indicators, this system enables central management to map branches based on their different intervention needs. For example, branches with high potential but low performance (grade D1 or E1) are prioritized for recovery programs or intensive training. It may be overlooked if banks rely solely on historical performance data. This supports the arguments of Financial Innovation (2024) and Kassani et al. (2018), who emphasize the strategic value of potential-focused branch classification for long-term planning.

This finding aligns with the opinion of Kayvanfar et al. (2022), who stated that a DEA-based dynamic evaluation model can be used to inform long-term strategy and branch development through performance classification. Insightful Banking (2024) also supports the use of branch grading systems as a strategic benchmarking tool to identify areas for improvement in a bank's distribution network. Research by Azzabi and Lahrichi (2023) suggests that understanding local potential, including infrastructure and market dynamics, is crucial for optimizing branch effectiveness. This can be effectively reflected through a grading system that takes into account the regional context. In addition, Abbasi and Weigand (2017) emphasize the importance of striking a balance between digital transformation and the strategic role of physical branches in high-value services, which is particularly relevant in a performance-based evaluation system such as branch grading.

From a practical perspective, the branch grading matrix developed in this study provides a clear and replicable tool for banks to:

- Identify which branches to invest in, restructure, or downsize
- Align resource allocation with business potential
- Prioritize strategic initiatives such as targeted marketing, staff deployment, and product specialization

This approach also supports regulatory goals of financial inclusion by helping banks maintain physical presence in high-potential but underserved areas, something that pure efficiency metrics often fail to capture.

The implications of these results suggest that bank management can utilize branch grading as a basis for investment allocation policies, consolidation planning, regional expansion, and measuring the success of transformation. In other words, branch grading is not only a diagnostic tool but also an integral component in data-driven decision-making to build more resilient, adaptive, and competitive branches.

6. Conclusion

This study demonstrates that the implementation of a branch grading system substantially enhances the performance of bank branches and fosters targeted business growth. Within just two months, 30.4% of the branches analyzed showed an improvement in their grades, indicating that the system effectively motivated performance enhancements through structured evaluation and benchmarking.

The findings reveal that key financial indicators such as funding (DPK), lending, and profit before tax (NPBT) significantly impact branch grading outcomes. Nonetheless, sustainable improvements also necessitate a focus on operational metrics, including transaction volume and customer base. Some branches with high external potential continue to underperform, underscoring the importance of effective internal management.

Moreover, branch grading serves as a valuable strategic decision-making tool. It enables banks to pinpoint underperforming yet high-potential branches, allocate resources more efficiently, and avoid one-size-fits-all strategies that overlook local distinctions. This dual-focus approach enhances internal accountability and aligns branch development with the realities of the market.

Managerial Implications

Bank management should institutionalize branch grading as an integral component of strategic planning. This approach facilitates targeted interventions, prioritizes resource allocation, incentivizes performance, and promotes better integration between physical branches and digital banking strategies ensuring long-term efficiency and competitiveness of the network.

Recommendation

Based on the results and discussion of this study, the following strategic and operational recommendations are proposed to enhance bank performance through the implementation of branch grading systems:

1. Institutionalize the Branch Grading Framework in Strategic Planning. Bank management should formally integrate the branch grading matrix into annual business reviews, resource planning, and performance evaluation processes to ensure consistency and effectiveness. By classifying branches based on both performance and market potential, banks can prioritize high-impact interventions and avoid one-size-fits-all strategies.
2. Focus Investment on High-Potential Underperforming Branches (D1/E1). Branches with low current performance but located in high-potential areas should not be closed immediately. Instead, banks should develop turnaround strategies such as assigning more experienced staff, launching localized promotions, or introducing targeted credit products to unlock their growth potential.
3. Rationalize or Consolidate Branches with Low Performance and Low Potential (D5/E5). Branches that consistently underperform and operate in low-potential markets should be restructured, merged, or closed to reduce operational inefficiencies. However, the impact on financial inclusion and customer service accessibility should be carefully evaluated before closure.
4. Align Human Resource Deployment with Branch Classification. Talent allocation should follow the branch grading results. High-performing relationship managers and sales staff should support high-grade branches (e.g., A1, B1), while underperforming branches should receive coaching, upskilling, or rotations based on identified capability gaps.

5. Utilize Grading Results to Inform Digitalization of Branches. For branches in low-potential areas that still require service presence, banks can implement "light branch" or hybrid models**,** such as smart branches or mobile banking units, instead of full-service outlets. This allows banks to maintain coverage while optimizing cost.
6. Customize Targets and KPIs Based on Branch Profiles. Performance targets (e.g., CASA growth, loan disbursement) should not be uniform. Instead, set differentiated KPIs aligned with the branch's market potential and past performance. This ensures fairness, improves motivation, and increases the accuracy of performance reviews.
7. Leverage Grading Results for Cross-Branch Knowledge Sharing. High-performing branches (e.g., A1, B1) should be used as learning models for others. Best practices, marketing strategies, and customer engagement techniques from these branches can be documented and replicated in mid- or low-performing branches.
8. Collaborate with Regional Offices and Regulators. For branches located in regions with development gaps, banks should collaborate with local government programs or regional financial inclusion initiatives to enhance market access, improve infrastructure, and expand outreach, especially in underserved areas.

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