

Theoretical and Methodical Aspects of Increasing Competitiveness of Commercial Banks

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Abstract

This article analyses the strategies related to increasing effectiveness of competitiveness in banking system and competitiveness of commercial banks. It also gives an overview to the scientific and methodological principles related to the development of competitive environments in commercial banks and increasing effectiveness of competitiveness. In addition, the role of competitiveness strategies in the activity of commercial banks is studied.

Keywords

Competitive Environment, Bank Competitiveness, Assessing of Bank Effectiveness, Assessing of Bank Competitiveness, Theory of Effective Competition, Indicators of Bank Competitiveness

1. Introduction

Since the early years of its independence, Uzbekistan has been paying attention to reforms in banking system as one of the main sectors of economy, and to the establishment of two-tier banking system corresponding to world standards. In addition, as President of Uzbekistan I. Karimov mentioned: "Reforms in banking system became one of basic factors in sustainable development of economy... Within the last years, leading international rating agencies such as "Moody's", "Standard and Poor's" and "Fitch Ratings" have been evaluating the activities of Uzbekistan's banking system as "stable". It is noticeable to mention that in 2011, 13 commercial banks received high rating scores, nowadays 26 commercial banks achieved this stage."

Indicators of Banking System Stability of Uzbekistan in 2015 correspond not only to the generally accepted standards, but also in some aspects they have exceeded. Therefore, the results of economic achievements in Uzbekistan in recent years have been ranked as high by the International Monetary Fund, World Bank, Asian Development Bank and other financial organizations.

Nowadays, broader networks of commercial banks in the country are giving more opportunities to customers by

providing better financial services, supplying their needs for banking services, and as a result competitive environment is increasing among commercial banks. Especially, in recent years, non-bank financial organizations are competing with commercial banks in offering financial services. In this article we targeted to learning strategies related to increasing effectiveness of competitiveness in banking system and competitiveness of commercial banks via some methods and methodological approaches.

2. Materials and Methods

One of the main objectives of reforming the banking system in Uzbekistan is establishing a relationship between commercial banks and clients based on "not a client for a Bank, but a Bank for a client" principle. In terms of increasing competitiveness in marketing of banking services, the role of marketing strategy is important through increasing the quality and culture of banking services and delivering them to clients. This factor shows the importance of elaborating scientific proposals directed to solutions of problems related to organization of qualitative services in banks of Uzbekistan.

Precise and successive reforms in the banking system have brought more opportunities for increasing the level of bank capitalization and rising from a deposit base in higher rates

and as a result, the financial sustainability of the banking system has been improved, the role of financial intermediaries has been increased and quality of banking services increased. "The banking system has been further strengthened, the capitalization level of the banks has been increased and their investment activity has widened. Total assets of the banking system have increased by 23,3% in comparison to the year 2014 and reached 7,8 trillion soums."

It is important to analyze indicators of competitiveness of commercial banks in Uzbekistan. In particular, it is important to compare current liquidity indicators with the norms indicated by central bank of Uzbekistan on a regular base. Managing assets, liabilities, and liquidity are one of the main tasks of financial analysis. By taking into consideration those conditions, we can observe indicators of competitiveness of commercial banks and analyze them from the scientific and methodological perspective.

In assessing of bank effectiveness, it is necessary to analyze general standards and activities on assets, liabilities and liquidity of credit. Analysis of quality of managing assets should be conducted by a group consisting to the most qualified experts, because the sustainability of banking system directly depends on appropriate method of managing assets. The volume of credit funds and dates also impacts on the regularity of economic analysis.

Assessing competitive effectiveness is one of main integral part of any entity. The importance of conducting this method is associated with several factors. The main factors might be increasing competitiveness; choosing partners; attracting right investors; organizing programs related to new market channels, etc. Randomly chosen dates of assessment create an opportunity to evaluate the state of art in network marketing.

It is known that assessing of competitiveness of a bank is not a straight forward task. It must be emphasized, like wise competitiveness and effectiveness of organization, there is no unique indicator which can show competitiveness. There are several views and ways of assessing competitiveness among scholars. Currently, the following assessment methods are used:

- Comparative advantage,
- Equilibrium of the Firm and Industry,
- The structural-functional approach,
- Qualitative research methods,
- Matrix method.

There are two main approaches in the framework of effective competitiveness theory in determining competitiveness criteria: structural and functional approaches. According to structural approach, evaluation can be conducted through identifying monopolization level, i.e. Production and centralization of capitalization and through identifying constraints for new companies entering network marketing.

In functional approach, the main economic indicators can be cost to price ratio, the level of capacity utilization with workforce, production capacity, profit norms and etc. This approach can help to make a conclusion about entire network. Functional method helps to evaluate competitiveness of groups that are integral parts of firms or

separate enterprises. In this case, indicators that are related to the objective of banks can be used. This is the ratio of the volume of value added to the numbers of workers who are engaged in workforce.

Comparison of the aforementioned indicators determines the level of competitiveness of banks and their branch offices. As a rule, in large and diversified banks these indicators can vary 2 or 3 times by specific activities or banks which can mean that they lack the necessary efficiency. In addition, the overall competitiveness of the bank with the competitiveness of other banks in the sector shows the bank's role in relation to its competitors.

The advantage of this method is to analyze the banking activity and to use indicators that enable to conclude various aspects of its activities. The disadvantage of this method is that it can not explain the importance of individual indicators, which in turn can not give the overall idea of competitiveness as significant. In addition, the method should be fulfilled with indicators of trade competitiveness.

Russian scientist Yu.S.Kudasheva offers to use this method. According to her opinion, as one of the options for assessing the competitiveness of the commercial bank she offers to use a technique based on the theory of effective competition, according to which the most competitive bank is having a high level of quality criteria for assets and liabilities, capital adequacy, profitability and efficiency, image and competitiveness of its services on comparison with the main competitors at equal for all participants in the ambient conditions of the financial market. In this case, the external environment is characterized by social security and development of the real sector of the national economy and the results of state regulation of the economy. The methodology allows to calculate the integral coefficient of competitiveness through calculation of a range individuals conditions characterizing the development of bank business.

The importance coefficients of indicators are calculated by expert method. Competitiveness of services is determined by two indicators: quality and the value of services; the connection between them allows to analyze their ratio: the value of services and quality coefficients through the scoring of individual conditions.

In order to evaluate the internal environment of bank Yu.S.Kudasheva has recommended using the following formula:

$$A_{in} = C_{alq} * 0.343 + C_{sc} * 0.337 + C_{pe} * 0.277 + C_i * 0.011 + C_{sq} * 0.032 \quad (1)$$

Where:

A_{in} - Assessment of internal environment

C_{alq} - Criteria of assets and liabilities' quality

C_{sc} - Criteria of sufficiency of capital

C_{pe} - Criteria of profitability and efficiency of bank

C_i - Criteria of image of the bank

C_{sq} - Criteria of services' quality

and 0.343, 0.337, 0.277, 0.011 and 0.032 are the importance coefficients of internal environment of bank.

In order to evaluate the external environment of bank, she used the following formula:

$$A_{ex}=C_{dp}*0.293+C_{rs}*0.485+C_{gr}*0.222 \quad (2)$$

Where:

A_{ex} - Assessment of external environment

C_{dp} - Criteria of dynamics of population

C_{rs} - Criteria of real sector of economy

C_{gr} - Criteria of government regulation

and 0.293,0.485 and 0.222 0,50, 0,21 are the importance coefficients of external environment of bank.

As a result, the integral coefficient of competitiveness of commercial bank (C_{ic}) is defined by the following formula:

$$C_{ic}=A_{in}*0.75+A_{ex}*0.25 \quad (3)$$

Where:

A_{in} - Assessment of internal environment

A_{ex} - Assessment of external environment

C_{ic} - Integral coefficient of competitiveness of commercial bank

As a summary to this method, we can say that evaluation of bank competitiveness is based on market analysis and data

from official statements. Even though the results of expert evaluation have the subjective nature, based on the primary objective (objective might be the quality of assets and liabilities, profitability or bank's image) of experts on evaluation of rival banks' competitiveness conditions and coefficients of indicators of importance can be changed.

From that perspective, the competitiveness of goods (services) is its properties, and the level of competitiveness is the indicator that shows relative characteristics of the ability of supplying the demands of market in comparing with rivals in a particular time.

In this approach,

Another Russian scientist M.B. Akhmatova, her work also notes that there are different approaches to the identification and assessment of the competitiveness of the bank. According to her description, these approaches will bring a system, which allows to summarizing the existing grid of methodological approaches. We analyzed the BSC-table we added the method of assessment of competitive efficiency and competitiveness of the banking products (Table 1).

Table 1. The basic approaches for assessing the competitiveness of the commercial banks.

Competitive advantages	The main content
Based on the nature of appraiser	
The competitive advantages provided by corporate customers	Existence of reliability, stability, image of bank, reputation and banking service
The competitive advantages provided by private clients	The cost of development of the branch network of banking services, the bank's work schedule, the list of banking services provided to customers, the bank's participation in the deposit insurance system
Based on the activities of the bank	
Economic	Tariffs on banking operations and services, the client's time and expenses, effectiveness of services
Noneconomic	Consulting, and security in deposits
Based on the primary external signs	
Image of bank	Position of the bank in the market, the status of a commercial bank in the region, brand recognition and reputation
Tariffs	The size of the commissions, order of services depending on a variety of criteria, and discounts
Regionally transparency of the bank	The availability of commercial banks, convenience of registered customers' to location of territorial units
Investments	Existence of investment programs for corporative and private clients, and recommendations in managing company's assets and capital. Existence of PSF.
Based on the level of authority*	
Internal authorities	Existence of organizational structure, skilled personnel, equipments, internal rules, regulations and guidelines
External authorities	Needs of customers, shareholders, investors, government structures and relations with the Central Bank of the Republic of Uzbekistan
Dynamic authorities	Innovation, dynamic operations, the rate of growth of economic indicators, decision-making
Based on the BSC-analysis indicators	
Finance	Profitability of assets, profitability of capital, profitability, level of risk, liquidity and investment relations
Internal processes	Speed decision-making, speed of introduction of innovations, speed customer service, quality of management (in compliance with the standards of the Central Bank of the Republic of Uzbekistan)
Clients	The quality of the customer base (active and loyal customer share); the profitability of the customer; market share, the level of customer satisfaction
Teaching and growing	The quality of personnel; personnel costs; personnel development costs; personal link with the goals and objectives of the bank; labor productivity
Based on the products' indicators	
Assortment	Wide or narrow. Corresponds to bank's strategy and market forecasts
Innovations	The level of innovativeness of the product line. The Bank's ability to accepting innovation. Products and product's life cycle
Quality	Quality of products and services
The value of consumption	Product compatibility with the desires and expectations of customers. Availability of customer value reflects the value of the franchise
Price	Elasticity of price. Avoid the optimal price indices
Sales method	Selling and promoting the optimal method

These assessing classifications under the terms of the transfer of certain indicators allow you to choose the optimal set. It will be open to a variety of information in different formats and assessment objectives, but the conditions and the Bank's operations and evaluating the results, regardless of external factors.

A scientist from Russia offers the following algorithm of assessing of commercial bank competitiveness and according to her competitiveness is –Banks as integral item of financial and market economy. As well as the all factors impacts on production and marketing effectiveness is considered as factors of competitiveness.

According to M. V. Akhmatova's opinion there are following components or the main indicators of bank competitiveness:

- 1) Financial condition of the bank: reliability, profitability, liquidity, and others.
- 2) Strategic potential of the bank – all kind of resources of the bank: financial, regional, technical and technological, personnel, organizational and management, adequacy and effectiveness of the use of information resources.
- 3) The level of costs and prices.
- 4) The quality and assortment of products.
- 5) Marketing channel.
- 6) Image of bank.
- 7) Corporate culture of the bank (both internal and external interaction with the environment).
- 8) Banking activities (stage of its life cycle).

In practice, we only value the quality of which can be determined only by experts. Information about the activities of a private commercial bank is closed, according to the methodology proposed in the conditions of effective competition will be very difficult or impossible.

It is the object of compromise that reflects the sum of different private and qualitative characteristics of quality standard way of assessing the performance of the index method. At the same time, be noted that the authors of the various options for a variety of integrated indicators, and the sum of the individual indicators is subjective.

In general, the indicators of bank competitiveness represent the sum of indicators of the level of strategic opportunities norms and regulations. The growth indicator of the level of capital investment and stagnant income growth is not always proportional to the amount of capital investments, as the point of optimal size of the additional capital, the largest organization of slowed reactions, as well as large firms determine the income index will start to decline as a result of growing and the principle of diminishing balances. At the same time, there is a critical point on the volume of capital investments, since economic activity of a certain income.

The bank competitiveness has described by accurate rendering of services and timeliness, quality, pre-sales and after-sales service has been organized at a high level and quality, the quality of the transition process from one state into another competitive situation, the stability of the

financial structures such as the accuracy of the support of the indicators.

3. Conclusion

In assessment of commercial banks' competitiveness, we offer to use solely for a variety of methodologies without avoiding above-mentioned all the benefits of the approaches. Requirements in methodology: competitive factors in the bank and its use of indicators reflecting the current state; the application is relatively simple (special software, complex calculations, most banks are not in the hands of a large number of experts able to cope use); lack of capital and labor-intensive process of evaluation; competitive efficiency indicator; the indicator of the effectiveness of competition in the possibility of competing banks in comparison with the same indicators.

The methodology of assessing of bank's competitive effectiveness must have the following differences than general assessing of bank competitiveness: indicators of current activity of the bank; compared with the actual indicators of banking activity, and some set of normative values, while others recommended by the Central Bank of the Republic of Uzbekistan, the requirements imposed on the banks and their properties (the degree of independence of the bank, the stage of development of the bank, the bank operating in the level of economic activity in the region, etc.), which is worth taking into account the basic values of indicators to be used.

In conclusion, as a result of complex assessing of bank's internal and external competitive effectiveness could bring opportunities, such as in creation of strategic cards and corporative strategies. As well as creating needed information base in their implementation.

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