

The estimate of effectiveness of financial management in commercial banks

Aisha Mukhatdamovna Serikbayeva

Kazakh Economic University named after T. Ryskulov, Zhandosov str. 55, Almaty, 050035, Kazakhstan

Abstract. The article demonstrates an expert-statistical analysis of the effectiveness of financial management. The purpose of the research is to reveal the effectiveness of financial management in the commercial banks of Kazakhstan. In the article the methodology of integral analysis of financial indicators is used. The main results of the research is the conclusion that the estimate of the effectiveness of financial management has to take into account such indicators as bank assets with the possibility of their subsequent detailing. At that, the estimate of the effectiveness of financial management may be implemented on the base of the generalized weighted average that allows the connection of such indicators with financial management for subsequent market comparison of end results.

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Introduction

In the economy commercial banks play a role of providing it with financial means, thus allowing economical entities to use resources accumulated by financial institutions.

Such a situation has a certain duality because on one side, free and therefore accumulating financial means are being used, and on the other side, these means will present an opportunity for the reversible return to owners.

The banks as an intermediate chain in the process of economic development receive a certain reward for services rendered on accumulation of the means, securing of their growth, and their repayment.

Such duality creates the need to develop competitiveness in the market services in qualitative and quantitative terms for the banks of the second level. These terms are understandable for consumers and being taken for their attractiveness and, therefore, competitiveness of price and tariff characteristics.

Hence, the survival and the necessity of further development in the economical environment pushes the banks to implement the most active, rational and market efficient activity.

Such activity is represented by the end results of the implementation of financial management, which is characterised by effectiveness, and therefore competitiveness. This is reflected in overall market valuation parameters, such as the level of interest deposit rates, tariffs for the various banking transactions, etc. [1]

The market also takes into account the changes in indicators of bank development that are published in the media. These are the indicators estimated in the dynamics of development of a particular entity, and connected to balance sheet, statement of profit and losses and cash flow, among

which are profitability of operations and income per share, growth in assets, change in liabilities, etc.

This means that the financial management of a particular bank is directly linked to the results of its activity, and therefore the level of its effectiveness could be defined and measured by the indicators of the bank's financial reporting.

The traditional estimate of financial management is directly linked to the estimate of financial policy implemented by a particular entity, its financial planning, accounting data, operational budget, capital programming, defining the tools for implementing the given programme, income maximisation, constraining the cost level, managing debt and cash.

As seen from directions mentioned above directly linked to the financial management, which are both individually and in total, having a particular effect on the competitiveness of an entity, which represents the real level of financial management.

Competitiveness as a parameter of the effectiveness of financial management may by its indicators define the level of implementation of each direction of a bank's activity both individually and combined.

Certainly, the additional characteristic of the level of financial management can be the profit of a commercial bank, which means "the excess of income over expenditure and reflects the final financial result of the functioning of the bank for a certain period of time" [2].

But according to the author, for the estimate of the effectiveness of financial management both the main indicators and their derivatives which in any context take into account the former main indicators could be used. The most important is that the higher the excess of income over expenditure, the more

efficient and competitive financial management is.

This indicator which is in fact the indicator of the level of profitability and allows the demonstration of the ability of the subject for the possibility of gain the capital. It characterizes a level of financial management, that stimulates the development of further efficiency. The higher the value of the index of profitability, the higher the possibility of increment, which means the proper evaluation of the effectiveness of financial management and consistence with the results of the study.

So, it can be argued that the higher the values of presented indicators, the higher the level of effectiveness of financial management implemented by the bank. [3]

Materials and experimental

For the estimate of the effectiveness of financial management, the analysis of indicators based on the real bank reports published in the media should be done.

The analysis of published reports on the banks of the financial market of the country is based on meaningful indicators of the balance sheet and statement of income and expenditure.

Nevertheless, the analysis of indicators operated by commercial banks conducted by the author demonstrates that for these purposes the indicators of aggregate type could be used. These indicators allow, at least in generalised terms, to evaluate the results of the effectiveness of financial management.

For the calculation of necessary indicators with the purpose of evaluation of the effectiveness of financial management, in the author's opinion, a formulae connected with the definitions of supply and demand for liquid funds presented in the work of Peter's. Rose could be applied [4].

In generalised form it looks like the following:

$$\text{Net-liquid position} = \text{Demand on liquid funds} - \text{Supply on liquid funds} \quad (1)$$

For the purpose of estimating the effectiveness of financial management in the value of liquidity the following recommendations of Peter s. Rose were included:

To the liquid funds (demand) by the same recommendations the following are referred to:

- withdrawals from customer accounts;
- loan applications;
- payment of expenses on attracting non-deposit funds;
- costs of other operations of the bank;

- dividend payments to shareholders.

The usage of the results of this research leads to the following; for the estimate of the effectiveness of financial management the criteria which allows the matching of given indicators to calculated ones, is needed.

According to the author, these criteria might be the message and functional meaning of reports published in public media, so to a certain extent the net liquidity position of banks is calculated, on the basis of which the assessment of the effectiveness of financial management is carried out.

This implies that the demand of liquidity aggregately includes all assets of the bank, and to demand all his obligations, respectively.

Thus, even in the case of publication differing indicators can obtain a relatively reliable indicator to assess the financial performance of the bank to further evaluate the effectiveness of financial management. [5]

Therefore, by summing up the values of the relevant indicators and the balance sheet published in the press it is possible to obtain the corresponding values of the net liquidity position to assess the current financial management of commercial banks (table 1).

Table 1. Net liquidity positions of commercial banks of Kazakhstan during 2004-2013

#	Name of the bank	Assets*	Liabilities*	Net liquidity position
1	JSC "Kazkommertsbank"	2 167 356 334	1 906 481 205	260 875 129
2	JSC "Bank TuranAlem"	1 788 001 627	1 780 497 969	7 503 657
3	JSC "Halvyk Bank of Kazakhstan"	1 627 171 864	1 428 970 341	198 201 523
4	JSC "ATF Bank"	852 922 183	789 264 191	63 657 992
5	JSC "Bank CenterCredit"	861 291 787	794 232 511	67 059 276
6	JSC "Alliance Bank"	648 917 766	639 387 307	9 530 459
7	JSC "Kaspi Bank"	346 223 589	309 361 191	36 862 399
8	JSC "Temirbank"	216 524 620	187 097 376	29 427 244
9	JSC "Citibank Kazakhstan"	182 404 193	162 840 680	19 563 513
10	JSC "Eurasian Bank"	289 952 801	262 843 060	27 109 741
11	SB "HSBC Bank Kazakhstan"	121 841 533	109 510 746	12 330 787
12	JSC "Nurbank"	230 965 404	186 606 170	44 359 234
13	JSC "Tsesna Bank"	270 389 624	245 349 764	25 039 860

Source: www.nationalbank.kz/?docid=1060

*Note: Average values during the last 10 years are shown

As seen from table 1, by the index of the net liquidity position the financial management of all the above banks has a large surplus of liquid funds, which forces the solving of problems relating to their effective placement.

This result demonstrates the fact that restrictive policy measures in the banking sector might be not effective enough, because estimative efficiency by net position of these banks during the study period might be considered depending on the market demand.

Apart from this, the net position in Kazakhstan reality does not allow the implementation of the estimation of the effectiveness of financial

management from the point of view of specific consequences. Therefore, this indicator cannot be sufficient for its estimate.

The author thinks that the estimate of the effectiveness of financial management based on the indicator of instant liquidity and prudential constraints, which are compulsory for implementation, will not be real and authentic enough.[6]

The market interest of second-tier banks to implement prudential standards does not reflect the real effectiveness of financial management, and is not reliable enough, as seen in practice.

The values of normative prudential variables cannot be considered sufficient for a realistic assessment of financial management effectiveness, as increasingly they reflect the actual activities of the banks in the short period of time, while limitations themselves monitor mainly average monthly changes.

The effectiveness of financial management is mainly determined by more long-term changes. This parameter to the external environment is significant, since it corresponds to the notion of the required level of financial management of a particular bank for its safety from the point of view of bank customers, and therefore the need for appropriate regulation of banking activities.[7]

Prudential norms for evaluating the effectiveness of the bank's financial management can be applied in the case where prudential regulations based on operational data for commercial banks, become necessary for the operational evaluation of the level of financial management.

This is important in the case when, for example, it is required to evaluate the effectiveness in the process of rehabilitation or other activities needed for a particular bank.

This situation, in the author's view, suggests that the regulatory indicators of banking activities to a certain extent allow the evaluation of the effectiveness of financial management of commercial banks only in terms of their minimum urgency, but with a greater coverage of dynamics. Then these aggregate indicators most accurately reflect the real state of the financial management to assess the effectiveness of the specific financial management.

In other words, the prudential regulations are considered from the point of purposes to limit the possibility of the failing of the banks, and not to evaluate the effectiveness of financial management.

In such cases for the estimate of the effectiveness of financial management of the banks the received by the author results could be used, in particular, the coefficients of net liquidity indicators.

With their help the comparison of

assessment results of the effectiveness of financial management in commercial banks for the estimate of the effectiveness of financial management received by the author could be conducted.

Taking into account the net liquidity indicators and the design relations between them and the assets and liabilities of banks that could be produced, that allows the weighing of the size of bank effort and get some estimated value, characterizing the efficiency of financial management. The results of this calculation are shown in table 2.

Table 2. The ratio of net liquidity position with respect to the assets and liabilities of banks

#	Name of the bank	Net liquidity position	NLP/Assets	NLP/Liabilities
1	JSC "Kazkommertsbank"	260 875 129	0,115	0,131
2	JSC "Bank TuranAlem"	7 503 657	0,006	0,054
3	JSC "Halyk Bank of Kazakhstan"	198 201 523	0,117	0,133
4	JSC "ATF Bank"	63 657 992	0,075	0,081
5	JSC "Bank CenterCredit"	67 059 276	0,078	0,085
6	JSC "Alliance Bank"	9 530 459	-0,012	0,036
7	JSC "Kaspi Bank"	36 862 399	0,105	0,118
8	JSC "Temirbank"	29 427 244	0,122	0,179
9	JSC "Citibank Kazakhstan"	19 563 513	0,108	0,121
10	JSC "Eurasian Bank"	27 109 741	0,098	0,108
11	SB "HSBC Bank Kazakhstan"	12 330 787	0,106	0,120
12	JSC "Nurbank"	44 359 234	0,181	0,230
13	JSC "Tsesna Bank"	25 039 860	0,107	0,120

Source: calculated by author.

The resulting coefficients can be diametrically opposite in value, based on market conditions existing at a given time (lack of financial resources or their excess).

If currently there is an excess of funds, then, for example, less value of the coefficient of NLP / Assets and the large value of NLP / Liabilities mean better efficiency of financial management.

In addition, the effectiveness of financial management can be carried out by the ratio of net liquidity position to assets and liabilities both individually and in combination.

For the comparison of the estimate of the effectiveness of financial management among the banks (table 3) the ranking of all analysed parameters is made.

In order to determine the effectiveness of which financial management is more preferable, it is necessary to use the summarizing or integral index, which is possible on the basis of the average value of the ranks assigned to the obtained coefficients.[8]

For example, by the arithmetic mean or average weighted parameter by the value of all assets the following result was obtained.

Table 3. Ranking comparison of the results of the estimate of the effectiveness of financial management of commercial banks by net liquidity positions.

#	Name of bank	Comparison of ranking		
		By net liquidity position	By the ratio of NLP/Assets	By the ratio of NLP/Liabilities
1	JSC "Kazkommertsbank"	1	10	4
2	JSC "Bank TuranAlem"	13	2	12
3	JSC "Halyk Bank of Kazakhstan"	2	11	3
4	JSC "ATF Bank"	4	3	11
5	JSC "Bank CenterCredit"	3	4	10
6	JSC "Alliance Bank"	12	1	13
7	JSC "Kaspi Bank"	6	6	8
8	JSC "Temirbank"	7	12	2
9	JSC "Citibank Kazakhstan"	10	9	5
10	JSC "Eurasian Bank"	8	5	9
11	SB "HSBC Bank Kazakhstan"	11	7	7
12	JSC "Nurbank"	5	13	1
13	JSC "Tsesna Bank"	9	8	6

Source: calculated by author.

The formulae of calculation of average value [9]:

$$\bar{x} = \frac{\sum_{i=1}^{i=n} x_i}{n}, \quad (2)$$

where:

x_i – values of the indicators of net liquidity positions of each bank

n – quantity of used indicators for defining the average value.

The results of the calculation of the average value according to formulae 2 are shown in table 4.

Table 4. Ranking comparison of the results of the estimate of the effectiveness of financial management of commercial banks by the average value.

#	Name of bank	Average value
1	JSC "Kazkommertsbank"	5,0
2	JSC "Bank TuranAlem"	9,0
3	JSC "Halyk Bank of Kazakhstan"	5,3
4	JSC "ATF Bank"	6,0
5	JSC "Bank CenterCredit"	5,7
6	JSC "Alliance Bank"	8,7
7	JSC "Kaspi Bank"	6,7
8	JSC "Temirbank"	7,0
9	JSC "Citibank Kazakhstan"	8,0
10	JSC "Eurasian Bank"	7,3
11	SB "HSBC Bank Kazakhstan"	8,3
12	JSC "Nurbank"	6,3
13	JSC "Tsesna Bank"	7,7

Note: indicators were calculated by the author by formulae 2 based on data from table 3.

The calculation of average integral value for one of the banks, for example, Kazkommertsbank shows the value:

$$\bar{x}_{KKB} = \frac{1+10+4}{3} = 5,0$$

From the calculated data it follows that the smallest values will match the higher ranking of financial management of the bank. The best financial management is demonstrated by JSC "Kazkommertsbank", its indicator is equal to 5,0, in second place there is JSC "Halyk bank of Kazakhstan" with the average value 5,3. Next is JSC "Bank CenterCredit" with the average 5,7. At the end of the list are JSC "Alliance Bank" and JSC "Bank TuranAlem" with average values 8,7 and 9,0 respectively.

According to the weighted average grade Kazkommertsbank, Halyk Bank and Bank CenterCredit has got the most effective financial management. Bank TuranAlem, SB "HSBC Bank Kazakhstan" and Alliance Bank showed the lowest effectiveness of financial management.

However, for a more objective assessment of financial management it is necessary to calculate the ranking of management among the banks. That will allow the performance of the estimate of the effectiveness of financial management on such indicators with longer dynamics.

Results and discussion

The calculation of weighted integral index, which is more realistic in the case of linking all assets with the received weights, requires the consideration of all assets derived from the published balance sheets of banks.

To evaluate the effectiveness of financial management an appropriate grouping of the financial statements for all banks in Kazakhstan is required. It is possible to observe different management approaches in strategies of major, medium and even small banks.

To do this it is necessary to determine in which direction the financial management of the banking sector is developing, where and how exactly its strengths and weaknesses make themselves felt on the entire economy, which groups of banks can maximize the use of the relative flexibility of a stronger impact on the economy and have a market outlook.

This latter point may be associated with a market evaluation, such as securities. Since it is known that the commercial banks of the second level are associated with the securities market, and the latter is an indicator of the economy, it allows the determination of the prospects of its participants.

In the author's opinion, the level of

effectiveness of the financial management of the bank could be assessed by the proposed integral indicator as a weighted average value of the assets of commercial banks.

This means a clear approach for assessing the level of financial management for each group of banks based on the weighting of assets, the theoretical justification and explanation of the possibilities of such a process, as well as a more objective comparison of the banks.

From the abovementioned it follows that the evaluation of the effectiveness of financial management should be built on indicators such as bank assets with the possibility, if necessary, of their subsequent detailing.

Thus, the evaluation of the effectiveness of financial management can be implemented based on a proposed generalised weighted average value, obtained by calculation in terms of overall and instant liquidity, as well as consideration of the net position of the bank that would, in the author's opinion, relate these figures to the financial management for later market comparison of the end results.

Corresponding Author:

Dr. Serikbayeva Aisha Mukhatdamovna
Kazakh Economic University named after T. Ryskulov
Zhandosov str., 55, Almaty, 050035, Kazakhstan

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