



QUESTIONS OF BANKING COMPETITIVE ABILITY:

CONCEPTUAL-METHODOLOGICAL ASPECT

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Abstract: *The article draws a general conclusion from methodological foundations to form banking competitive ability and banking product (services), as well as the new index – business competitive ability – is introduced for the first time. The authors give their own original definition of banking competitive ability index and the method of its calculation. This approach allows getting an integral notion concerning the calculation of banking competitive ability in the whole as well as for the business of a particular region and market segment.*

Key words: *commercial bank, banking product, banking service, banking business competitive ability, strategy.*

INTRODUCTION

Nowadays banks suggest a wide spectrum of products including all the spheres of the market financial services. It is generally accepted that the final purpose of any banking activity is to win in the competition and get a stable income. Achievement of banking competitive ability depends on the competitive capacity of its services. Competitive ability, peculiar for all the elements of economical system, is in the conflict situations resulting in market redistribution. The well-known economist Yu.O.Zaruba admits that contrary to classical competition between producers, banking competition has its own properties revealed in the following [1, p.119]:

- not products but money is the object of competition;
- any bank in the market can be not only a seller but a buyer as well;
- the problem of inaccessibility of “sale-production” canals is absent, i.e. realization of banking products can be localized within the bank limits;
- non-banking financial establishments are present in competition;
- patent defense of innovations is absent.

From the other hand, competitive ability of a commercial bank under contemporary conditions is defined by the degree of its correspondence to customers’ requirements and the rate of increasing of its customer’s base. Banking services can be attractive for the customer both due to their economical factors and possibilities of the bank of a non-economical character. Economical (price) factors stipulating the value of a bank for its customer and, thus, its competitive ability contain the following:

- customer’s expenses (banking rates) while holding any operation;
- the time spent by the customer while holding any operation, that is, emotional expenses;

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- effect after using banking services, that is, getting certain income.

Price competition in banking has its own peculiarities. The methods of competition are the following:

- reduction by existing banking rates;
- suggesting new services with higher quality and better structure allowing substantial economy;
- giving some services free (accessory services mainly); involvement of “cheaper” money;
- making credit terms longer;
- making calculations and payment quicker;
- giving services on favourable terms for a certain category of customers (VIP) etc. [1-3].

Thus, such an aggregated result, achieved in the sphere of price competition, allows considering it as a highly effective regulator of competitive relations in the market of banking services.

Non-economical (non-price) factors are connected with banking possibilities concerning solving the customer’s problems occurring in the relations of the customer with state and municipal organs, suppliers and contractors, other banks, while giving consulting and other services promoting his business, as well as keeping commercial secret and banking reliability in general, which is the most important now in the time of financial-economical crisis. But the main constituent of non-price competition is the quality competition of those services given and the products suggested. Making the quality of its services higher, the bank gets substantial advantages before competitors, and these advantages can be the foundation to fix higher rates. In case the bank has the price of its services equal to those of its competitors, higher quality of these services allows getting the status of the leader in the market, increasing the number of its customers and the size of its market share. Thus, location, convenient schedule of work as well as involvement of more qualified staff can make the quality of services given considerably higher.

The literary analysis conducted has demonstrated the definition of competitive ability of a commercial bank suggested by N.P. Kazarenkova to be the most structural: “Banking competitive ability is potential and real possibilities of a credit organization to create and promote to the market its highly competitive products and services, to form a positive image of a reliable and contemporary bank meeting the requirements of its customers” [3, p. 9]. It is generally accepted that banking competitive ability cannot be separated from the competitive capacity of its products and services, which can be considered as the whole complex of their characteristics. Thus, competitive capacity of products and services is the property characterizing the degree of their correspondence to the customers’ requirements, as well as advantages for potential customers, which determines a share of the market belonging to this service (product).

Today it is rather complicated to identify all the competitors and to determine a real market share concerning a certain bank. Modern methods allowing estimation of the level of financial state, solvency, and reliability of the bank are built on one-sided analysis of its activity, and final indices received as a result of their use cannot serve as a general quality estimation of a financial establishment. Its use can be considered as a part of a general estimation procedure of financial establishment competitive ability based on the multifactor analysis both of quantitative and qualitative criteria of its functioning, which includes the following:

- quality criteria of assets and liabilities, sufficient capital, profitableness and profitable activity, reflecting financial potential, at the expense of which a further banking development is possible;
- criteria of competitive capacity of services given by the bank having a close relation with financial stability and the level of its image.

Constantly increasing competition on the retail markets of banking services from one side, and absence of regional business-strategies, general approach to planning the development and increasing competitive ability of the branches, their inconvenient location and insufficient orientation on the requirements of regional customers from the other side, prevents realization of banking projects or reduces their efficacy. Thus, topicality of the problem chosen is introducing banking competitive ability index into the activity of commercial banks.

1. CONCEPTUAL ASPECT OF BANKING COMPETITIVE ABILITY

Competitive ability of a commercial bank is a complex dynamic index of a comparative level of development of various criteria in its development and activity, including competitive capacity of its products and services. At the same time, competitive capacity of banking service is a relative dynamic index of its qualitative and value characteristics, which optimal correlation ensures meeting the customers' requirements and beneficial difference from similar services of its competitors. The world financial crisis has demonstrated all the drawbacks of the standard business directions without considering their regional peculiarities. Thus, banking business competitive ability is real and potential possibilities of a credit organization to create and promote to the market the products and services (a product-oriented bank) corresponding to existing and potential requirements of a particular market segment (customer-oriented bank) and/or region (territory-oriented bank), and thus promote the formation of a particular real and prognosed share of the market. Thus, calculation of this complex dynamic index of business competitive ability – that is, competitive capacity of services (products) given by the bank for a determined segment of the market or region (a relative part of the market, a relative quality of services – assortment, technological level, location and relative price of services) – reflects the efficacy of correct management decisions.

2. METHODOLOGICAL ASPECT OF BANKING COMPETITIVE ABILITY

Banking competitive ability is a new branch in scientific literature and practical use. I.O.Spitsyn and Y.O.Spitsyn [4, p.266] introduced the method to estimate banking competitive ability by means of comparison of its state with the state of its main competitors by the following criteria: absolute and relative market share, relative quality and price of services, relative capital capacity of banking activity etc. The level of banking competitive ability is calculated by means of expert estimation of the indices by five score scale. To our mind, this method first separates and then examines total quantitative and qualitative characteristics of banking activity. This method differs from others by the development of a definite system of criteria determining banking competitive ability and its products (services). I.A.Nikonova and R.N.Shamgunov [5, p.16] in their method suggest that estimation of banking competitive ability should be made not only considering its competitors and customers, but foreign investors as well, because its competitive ability becomes an equivalent of investment attraction. The authors also think that banking competitive ability is determined by both economical and non-economical factors, and thus, they distinguish twenty the most important qualitative estimation of the bank by its customers and physical persons: the level of trust to the bank, staff qualification, the level of popularity of the bank, quality of its services, correspondence of banking policy to regional interests, development of its network etc. Another method, elaborated by I.N.Rykova and A.A.Chernyshev [6, p.63], allows to the authors' mind learning banking competitive ability by the estimation of two groups of indices: stability (reliability, liquidity, profitableness) and consumers' advantages calculated in score. An external factor influencing on banking competitive ability as well as the parity of percentage reliance by the main kinds of banking services are also considered. The final value of estimation of banking activity by this method is a part of competitors in the banking sphere by these indices.

Drawing a general conclusion from the above mentioned methods concerning competitive ability of a credit establishment in general and competitive capacity of banking products (services) in particular [3-6] we would like to suggest the following algorithm of the above mentioned indices:

The first stage is the comparative analysis of financial potential of the bank promoting further banking development with the indices of the main competitors in the market. This index can be chosen according to the rating of the Commercial Banks Association of Ukraine [7]. This comparison is made on the basis of a number of the following criteria: a relative share of the market, relative capital capacity, relative profitableness from the activity.

The second stage to estimate competitive ability is the analysis of competitive advantages factors (CAF) suggested in the market of definite products (for example, arranging auto overdrafts, pension deposits etc.) considering the most important characteristics: assortment of products, availability of services (the network of branches in Ukraine, technological level etc.), price policy (rates, loyalty programs). The research is directed to find the key factors for the customers in the

process to choose the right bank and the right service (product). According to our research in this field we can differentiate between the following CAF: variability (assortment) of services (products); price (amount of percentage and rates on services); technological level; availability of services. Due to these criteria relative indices of services are calculated (assortment, technological level, availability of services) according to the quality and price of services.

The first two stages of the estimation of banking competitive ability result in the development of “P” matrix by the indices (fig.1). The result of the calculation is general relative index and rating of the bank as compared with other banks-competitors (min.5). The rating of the bank is calculated by 5 point score.

Estimation criteria (rank)						
Relative market share	Relative profitability of activity	Relative capital capacity	Relative quality of services	Relative price of services	General relative index	Competitive ability (rank)

Fig.1. P matrix is estimation of banking competitive ability by a certain product (service) with banks-competitors

The third stage is calculation of business competitive ability index. Considering identity of assortment of products, technological level, price policy, the index of availability within the region is added (branches, cash machines, service offices etc. available), or the concentration of a certain kind of the segment. Similar indices are further calculated by a particular region and/or segment. The final stage of our research is the development of “P” matrix allowing to detect the most competitive bank of the region and/or segment by a certain kind of products (services). This index is compared with the previous index in Ukraine. The results received by the method suggested can be the foundation to take right management decisions concerning correction of planned indices by a certain service (product) for a particular region and/or segment.

CONCLUSIONS

The main accent in the strategical development of modern Ukrainian banks should be based on expansion and increasing the quality of retail services given both by the main bank and its structural subdivisions, which to our opinion can be the most stable under crisis conditions and have a high beneficial potential. The research conducted as to generalization of methodological bases to form banking competitive ability and banking product competitive capacity considering the index of business competitive ability will give additional possibilities for commercial banks to consider advantages and disadvantages of their conducted and planned service policy, to estimate the character, scale and results of their activity on the stage of elaborated and pilot projects. Thus, the method to estimate banking competitive ability is the following:

- comparative analysis of banking financial potential promoting further banking development with the indices of the main competitors in the national market;
- estimation of competitive capacity of the product (service) as compared with other banks-competitors on the basis of CAF analysis suggested on the market considering the most important characteristics: assortment, availability of services, technological level, price policy;
- calculation of the index of banking business competitive ability in a particular region of Ukraine and/or market segment in comparison with other banks-competitors, and taking correct operative management decisions considering correction of planned indices by a certain service (product).

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