

**IDENTIFYING FACTORS AFFECTING BANKS' COMPETITIVENESS IN BANKING SYSTEM
WITH AN EMPHASIS ON PERFORMANCE OF INTERNATIONAL DIVISION
(CASE STUDY: IRANIAN PRIVATE BANKS)**

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Mohammad Ali Abdolvand

*Professor, Department of Business
Management, faculty of
Management and
Economics, Science & Research
Branch, Islamic Azad University,
Tehran, Iran*

Somayeh Hozouri

*Ph.d Student of Business
Management, Department of
Business Management, Science
& Research Branch, Islamic
Azad University, Tehran, Iran*

Mohammad javad

Karimzadeh

*Ph.d Student of Business
Management, Department of
Business Management, Science &
Research Branch, Islamic Azad
University, Tehran, Iran*

Abstract. Nowadays, banks, as organized institutions, play an important role in attracting stagnant capitals and transferring them to productive sectors, as well as meeting the financial needs of investors. It is important for policy makers and bankers to know how much the competition has been in this sector over time and how it has changed. Given that a competitive environment in the banking system can increase the efficiency and facilitate financial transactions, identifying the structure governing banking system can increase the efficiency and facilitate financial transactions, identifying the structure governing banking system can pave a way to eliminate barriers and the problems of creating a competitive market and is a signal for policymakers to pursue monetary and fiscal policies in line with the country's economic goals. Therefore, today, with the growing field of competition in Iran's banking system, banks are struggling to increase or at least maintain their market share in a variety of ways. Due to their competitive advantages and strengths, banks can greatly guarantee their success in competing with other competitors. Banks, with the appropriate and scientific method of measuring competitive power, can estimate their competitive strength and distance from other banks. Such a model should be able to pinpoint the strengths and weaknesses of each bank relative to its competitors so that they can take appropriate measures to remove or reduce their competitive gap with other competitors.

The present research aims to assess key factors for banks' competitiveness. The questionnaire was designed in Likert scale & distributed among 185 managers and experts in the field of International division. Cronbach alpha is calculated as %92, which is well above the minimum desirable limit of 0.70. The study investigates 13 factors & extracts four important ones, which market share strategy, exchange and international activities, financial strategy, Technology and information strategy. In this paper for analyze the data use from spss softwares.

Keywords: International Division, Competitiveness, banks' competitiveness, Factor analysis

1. INTRODUCCIÓN

Generally, capital formation is the basic requirement of any economic activity. The role of banks in different financial markets of world is different. But in most countries, banks are the main actor in this market. Therefore, the existence of a healthy and efficient banking system for countries is a major prerequisite and a factor in economic growth. Liquidity management, reducing transaction costs, sharing or distributing risk, and reducing the cost of information are the main reasons for the bank as a financial intermediary. Effectiveness and proper functioning of banks can prevent investors from invading non-organized and non-regulated markets outside the banking system. Competition is also one of the subjects that economic experts have always considered a strategy for economic growth and optimal use of Economic resources. Increasing competition and efficiency in the banking market can increase the quality and variety of banking services and reduce transaction costs. Given the role of banks in the economy, whether they are competitive or not, they can reflect the ability of banks to influence the economy. Identifying and Recognizing the Competitive State of the Bank's Market can help policy makers and planners of the country's banking system. Making structural changes and spending costs to promote the country's banking system towards more efficiency and competition may be inefficient and have not a desirable result (Yeyati and Micco, 2007).

1. Theoretical Bases

Competitiveness is derived from the term competitor, which means trading in order to conquer the market. According to Marts, competitiveness is equivalent to the economic power of a unit against its rivals in a market where goods, services, skills and ideas are easily transmitted beyond the geographical boundaries. Competitiveness at the trading house level can be defined as the ability of that to design, produce and market products and sell them more than competitors. According to Christensen of the Harvard Business School, governments are able to compete when their trading houses can compete. Porter believes that the trading house is competing in the market rather than the state.

The World Economic Forum sees competitiveness as the ability of the national economy to sustain growth or maintain a standard of living (per capita income). From the viewpoint of the Organization for Economy and Development Cooperation,

competitiveness is the ability to produce goods and services of a nation to provide international markets, while simultaneously maintaining or improving the level of long-term citizens' income. From the perspective of Antikad, the most obvious attitude towards the competitiveness is obtained from the comparison of the performance of macro-economy and economy of society life based on the productivity of the factors of production. The exact concept of competitiveness in this view is the ability of countries to sell their products on global markets. In the opinion of the Development Management Institute, national competitiveness is not simply the concept of a simple community of trading houses, but a result of several factors, such as leading economy by the state, social policies, and the mechanism for creating value. Competitiveness means the ability of the country to create added value and increase the wealth of the society by managing assets and creating attractiveness etc. Also, according to Heath's (1998) view, national competitiveness is the rate of production of goods and services by a country that can reach international markets. At the same time, it could increase or lower the real incomes of its citizens. Cohen also believes that competitiveness can be defined as the ability of an economy to maintain its share in international markets or increase its market share in every activity it performs, provided that it makes improve the living standards for the participants in the competitive process or at least prevent these standards from falling.

Competitiveness in the era of increasing globalization is an important issue in policy-making at different levels (country, industry, and trading house) in different parts of the world. Whether in the domestic or global market competition, business strategies are set up for companies to set the path from their current competitive position to a new, stronger position. This is only achieved by improving corporate competitiveness (Bikker and Haaf, 2002).

Another group of researchers focuses on the relationship between competitiveness and organizational performance. They define competitiveness as the ability to raise revenues at speeds equal to competitors and create the necessary capital to face them in the future. In a more comprehensive definition, competitiveness is described as follows: "Competitiveness means the ability of an organization to maintain its business and protect its assets, obtain return on investments and guarantee future jobs" (Bikkerand et al, 2007).

2.1 Output Competitiveness (business performance)

Several dimensions have been presented as dimensions of business performance in studies. These include economic, financial, non-financial, organizational, judiciary, objective dimensions, profitability, asset and capital returns, customer satisfaction, market share, new product success, product quality, etc. Given the fact that the mentioned dimensions are scattered in different studies and have been set in accordance with the components discussed in the context of trading house values, the components of output competitiveness in terms of the functional components of business in the market, customers, competitors and the trading house itself, the trading house performance in the target market including the growth of the market share and the success of the new product in the customer field, including increasing customer satisfaction, improving the quality of services and introducing a new customer in the field of competitors, including improving the competitive position in relation to the firm itself, including increased satisfaction Employees, financial performance growth and social performance improvement. (Buchs et al., 2005)

2-2 Bank performance

Market-based resources include market orientation and management capabilities through impact on market-based resources, including customer relationship capabilities, market innovation capabilities, human resource assets and reputation assets; they improve customer and market performance, and lead to financial performance. According to them, the sources of marketing support affect the level and quality of the company's market-centric resources. In turn, they affect the financial performance of the company in two ways:

- (1) creating superior customer performance (satisfied and loyal customers who should be benefited from services);
- (2) creating superior market performance (volume of sales and market share) by providing the effectiveness of customer requirements.

2.3 Customer Performance

Including customer loyalty level compared to competitors, customer satisfaction level compared to previous year, customer loyalty level compared

to previous year; market performance, including sales volume performed in comparison with competitors or market share obtained compared to rivals, Financial performance, including the level of overall profit obtained compared with competitors, margins compared to competitors and return on investment in comparison with competitors.

The Bank's business environment consists of two parts: support and queue (front-end). The support section focuses on the performance of those operations that are not directly visible to the customer (such as check, ATM programming, internal control / audit, and billing). On the other hand, the queue sector, with its focus on effectiveness, includes actions and activities that take place at the same time, or when customers interact directly with employees. Generally, the support is technology-oriented, and queue relationship-oriented.

However, these two stages are heavily interdependent. Accordingly, the banking sector should provide part of its services through technology and its other part through individuals. These interactions and interconnections between activities in the two parts are crucial for success in the banking industry. (Buchs et al, 2005);

2. RESEARCH METHODOLOGY

3.

3.1 Data collection and sample

This study attempts to find the impact factors affecting banks' competitiveness in banking system. The proposed study uses factor analysis to extract most influence factors and sample size has been chosen from managers and experts in Private Banks. The questionnaire was designed in Likert scale & distribute among 185 persons. To analyze the data, descriptive statistics were used to sort the data in the second part of the data analysis is performed based on statistical inference. In this paper for analyze the data use from spss softwares. Factor analysis and structural equation analysis of the presumptive test was used.

3.2 Assessing reliability

The reliability of the measurements in the survey was tested using Cronbach's α . Hair et al. (1998) stated that a value of 0.70 and higher is often "considered the criterion for internally consistent established factors". Cronbach alpha is calculated as 0/92, which is well above the minimum desirable limit of 0/70. The Cronbach's α coefficients in

parentheses indicating the internal consistency reliability of the measures ($\alpha = 0.925$).

There are 13 variables and using factor analysis, We extract four factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/90(Approx. Chi-Square = 2/124E3df=78 Sig.= 0/000),which also confirms the results of our survey.

4. Analysis And Results

The proposed study designs a questionnaire and distributes it among 185 managers and experts in Private Banks. Chronbach alpha is calculated as 0/92 ,which is well above the minimum desirable limit of 0/70. Chronbach alpha has been calculated as 0/92 and table 1 demonstrates the results.

Table 1. Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
0/925	0/924	13

We extract factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/90(Approx. Chi-Square = 2/124E3 df=78 Sig.= 0 /000),which also confirms the results of our survey. Table2 demonstrates the results.

Table 2. KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.90
Bartlett's Test of Sphericity	Approx. Chi-Square	2/124E3
	Df	78
	Sig.	0/000

Table 3. The summary of factor analysis

Component	Total	% of Variance	Cumulative %
1	1/920	14/766	14/766
2	1/685	12/961	27/727
3	1/661	12/774	40/501
4	1/493	11/481	51/982
5	1/457	11/210	63/192

5. Interpretation Of The Results Of The Factor Analysis

In this section, we present details of our findings on four influencing factors.

5.1 The first factor: Analyzing exchange and international activities

The first factor is associated with exchange and international activities. Table 4 shows details of our survey. As we can observe from the results of Table 4, "Currency guarantee" is number one priority followed by "Number of branches abroad", "Letter of credit".

Table 4. The summary of factors associated with Analyzing exchange and international activities

option	Factor weight	Eigenvalues	% of variance	Acumulated
Letter of credit	0/735			
Currency guarantee	0/844	2/489	63/223	63/223
Number of branches abroad	0/764			
Foreign Exchange	0/720			

Cronbach alpha =0.83

Table 5. The summary of factors associated with market share

Option	Factor weight	Eigen values	% of variance	Acumulated
Investment deposits	0/780			
Mutual income	0/898	1/530	38/238	38/238
Visual deposits	0/420			

Cronbach alpha =0.67

According to the results of Table 5, "Mutual income" is number one priority followed by "Investment deposits" and "Visual deposits".

5.3 financial strategy

According to the results of Table 6, "Concessions" is the most important component in financial strategy factor followed by "Debts and assets" and "Net profit".

Table 6. The summary of factors associated with political commitments factor

Option	Factor weight	Eigenvalues	% of variance	Acumulated
Net profit	0/663			
Concessions	0/863	2/094	66/782	66/782
Debts and assets	0/798			

Cronbach alpha =0.88

5.4. Technology and information strategy

Technology and information are another important factors with two items summarized in Table 7. According to the results of Table 7, “Number of branch offices

“is the most important component in value drivers factors followed by “Number of ATMs.

Table 7. The summary of factors associated with Technology and information strategy.

Option	Factor weight	Eigen values	% of variance	Acumulated
Number of ATMs	0/748			
Number of branch offices	0/766	2/0399	57/766	57/766

Cronbach alpha =0.62

CONCLUSIONS

As a discussion and conclusion, it can be said that financial power for banks active in the banking system of Iran has a strategic role. Therefore, superiority in financial indicators is a key factor in competitiveness. Among the financial indicators, the best position in competitiveness belongs to banks that have a lot of assets. The existence of physical and non-physical assets is a key factor in competitiveness. Debts are the other key determinant of financial indicators. Therefore, in the field of financial indicators, the high level of assets and low debt will play a key role in improving the competitiveness of banks. Foreign exchange and international operations and gaining market share are also important in the second and third place. Banks active in international activities for the use of the global market and facilitating export and import of the country play a crucial role in the competitiveness of banks. Given the sanctions imposed on Iranian banks, if some banks can increase their interactions with the outside and play role in international interactions, they can significantly increase their competitive edge. As it

is clear in the analysis, buying and selling currency and credit documents have the greatest role in improving international and foreign exchange activities and foreign sanctions against Iranian banks have the most effect on documentary credit. Based on this, the data and results of this study were analyzed using factor analysis method in the competitiveness of banks, among which 4 components of market share strategy, exchange and international activities, financial strategy, Technology and information strategy were identified and presented.

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