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Introduction

Kazakhstan's banking system has already changed dramatically over the past two years, going from a largely independent sector to one with a high level of government control. It is well known that global economic crisis negatively affected the economy of Kazakhstan. Many experts admit that anti-recessionary measures proposed by the Government of Kazakhstan, which includes KZT 1200 bln (US\$10 bln.) stimulus package, practically have not given fast and appreciable economic, financial and social effect. Economists forecast several years of stagnation in Kazakhstan's banking system, since domestic source of funding, including government funds, are too limited to replace international borrowing.

As a result, all the banks faced tough challenges not only at macro level, but also at micro level, i. e. organizational. Many banks were forced to change, mostly by restructurization, in order to sustain their businesses. Generally, banks realized the change processes by their managers, but at the same time involving external change agents to increase the efficiency of change programs. Current report, which is prepared by external change agent, is the real example of the implementation of change program. The process of change is implemented in " Kaspi bank" JSC, which is the leading bank of Kazakhstan.

Statement of Authorization

Preparation of this report was supported by Alya Ryskeldykyzy, who is the Head of Retail Business Department of " Kaspi bank" JSC. Retail Business Department is divided into Divisions such as Sale, Sale Methodology,

Marketing, Sale Channel, Retail Business and SME. Alya Ryskeldykyzy provides coordination of these divisions, supervises the promotion of bank products and services, manages business processes of Department, and controls branch network of “ Kaspi bank” JSC.

Purpose of the Report

The initial purpose of the report is to identify how above-mentioned external factors affect “ Kaspi bank” JSC performance, particularly, Retail Business Department, as this Department is the direct source of revenue of the bank. It is significant to formulate a general overview of Department and its Divisions, and then to determine the internal problems of Retail Business Department and suggest methods overcoming tough challenges.

Source of the Report

In the report, the following supportive sources are used, such as consolidated financial report of “ Kaspi Bank” JSC for 2008, reports of Kazakhstan Stock Exchange (KASE), internal corporate journal, corporate journal for customers, and important internal documentation that regulates the daily activities of the Bank.

Scope of the Report

This paper will focus on: 1) Discussion on background of “ Kaspi Bank” JSC; 2) Focus on the Congruence model, by describing the key organizational input, organizational transformation process, and concept of output; 3) Analysis of the problems; 4) Downsizing program and its probable risks; 5) Restructurization as alternative method and supplementary procedures to

sustain it; 5) Political issues of downsizing program and recognition of basic threats.

Limitations of the Report

The primary limitation of the report is that it concentrates solely on retail business of the bank, the process of analysis will be connected with retail business, so information and data will belong to retail business.

Background of “ Kaspi Bank” JSC

“ Kaspi Bank” joint-stock company (JSC) is included into ten leading banks of Kazakhstan with the assets exceeding KZT 267 bln., and the consolidated capital of KZT 44 bln. The bank holds the leading positions in consumer crediting. The retail network of bank consists of 150 branches and 514 points of sales consumer credits, serving more than 2000 trade enterprises (See Table 1. 1). The investor of “ Kaspi Bank” JSC is the leading direct investments fund – Baring Vostok Private Equity III (BVPEF III). (“ Kaspi Bank” JSC Official Website)

“ Kaspi Bank” always placed emphasis on quality of services and stable consecutive development, differing with conservatism (“ Prosto o Finansah” December, 2009). “ Kaspi Bank” team does not gain the neighbouring markets, instead having concentrated on work with Kazakhstan people and business in the country. “ Kaspi Bank” admits that the population needs good banking services and reliable financial partner. The Bank already became that financial partner having more than 1 million customers, among which more than 8 thousand small and average companies (Consolidated financial report for 2008). The bank has established one of the largest

branch networks, and people can meet employees of bank practically in every large shop in which people make big purchases.

The Congruence Model

The critical first step in designing and leading successful large-scale change is to fully understand the dynamics and performance of the company. It's simply impossible to prescribe the appropriate remedy without first diagnosing the nature and intensity of an organization's problems. Without a comprehensive roadmap - a model - for understanding the myriad performance issues at work in today's complex companies, leaders are likely to propose changes that address symptoms, rather than causes. Although there are countless organizational models, our purpose is here to describe one particular approach - the congruence model of organizational behaviour. We have found the congruence model to be particularly useful in helping leaders to understand and analyze their organization's performance.

Nadler & Tushman's congruence model is considered as an open system model that is based on the statement that the organizational effectiveness is determined as the congruence between different elements of organization. It is important to note that the congruence is defined as the degree to which the demands, needs, objectives, goals and structures of one component are consistent with another.

Key Organizational Input

An organization's input includes the environment, resources and history. Every organization exists within a larger environment, which includes people, other organizations, social and economic forces, and legal constraints. The

second source of input is the organization's resources, including the full range of accessible assets - employees, technology, capital, and information. There is considerable evidence that the way an organization functions today is greatly influenced by landmark events that occurred in its past.

The Organizational Transformation Process

The heart of the model is the transformation process, embodied in the organization, which draw upon the input implicit in the environment, resources and history to produce a set of output. The organization contains four key components: the work; the people who perform the work; the formal organizational arrangements that provide structure and direction to their work; and the informal organization, sometimes referred to as culture or operating environment, that reflects the values, beliefs, and behavioural patterns.

The Concept of Output

The final element in the congruence model is the concept of output. Very simply, the organization's performance rests upon the alignment of each of the components - the work, people, structure, and culture - with all of the others.

Analysis of the problems

Nadler & Tushman (1997) identified eight steps of activities that help leaders understand the interaction of forces that shape the performance of each organization, and provide them opportunity of working with their own people to design and implement solutions to their organization's unique problems.

1. Identify the symptoms - list the phenomena that suggest that there might be a problem. The global financial crisis, which begun in the fall of 2007, can be considered as the primary symptom of the problems in " Kaspi Bank" JSC. The crisis severely affected the growth of the economy of Kazakhstan, consequently unemployment rose dramatically. As a result, the bank's liabilities suffered of non-repayment of loans, and the funds held for customers rose by KZT 129, 461, 461 (US\$ 995, 857) (Consolidated financial report, 2008).
2. Specify the input - identify key elements of the organization's environment, resources, and strategy. The fundamental aim of the Bank's activity is to provide customers and partners a full spectrum of possibilities offered by the modern market. Moreover, the mission of the Bank is to surpass the expectations of each customer by providing the services of high quality. The Bank resources are monetary funds, emergency funds, financial assets, advisory funds, loans to customers, investments, fixed capital, and intangible assets, which account for KZT 267, 071, 409 (US\$ 2, 054, 395) (Consolidated financial report, 2008).
3. Define the output - collect information on both the intended organizational output and the output that is actually occurring. The output of the bank is the expansion of customer base by SME that need loans, and population that represents good potential possibilities for expansion of depositary base and diversification of credit portfolio. Moreover, the Bank is interested in increase of equity capital by

attraction of new shareholders and issuing of securities that will provide the rise of all assets.

4. Determine the problems - identify the gap between the intended and actual outputs and the cost of this gap in terms of organizational performance. " Kaspi Bank" JSC recruited a lot of employees in 2006-2007, during the rapid growth of the economy of Kazakhstan, to expand and sustain the disbursement of personal consumer loans. Mostly, these employees were directed to Retail Business Department, which provides development, sale and support of products to individuals and SME (See Table 3. 1). The days of rapid growth are well and truly over. Corporate loan book growth is fluctuating around zero, and the outstanding amount of loans issued to individuals has fallen. On the liabilities side, corporate deposits have been a major, but insufficient, source of funding to replace foreign debt. Therefore, there is no need for excessive workforce, as slack resources in the form of excess workers, unused productive capacity, and unnecessary capital expenditures add costs to organizations resulting in competitive disadvantages and reduced performance.
5. Describe the organizational components - collect data on the four organizational components, but in doing so recognize that not all problems have internal causes; the problem may be a strategy that is not longer appropriate. The organizational components include the work, the people, the formal organization, and the informal organization.

6. As for work, there is a necessity of developing new job descriptions, decreasing the number of management levels in Retail Business Department, and, lastly, devolving decision making to the lowest point possible.

As for people, there is a necessity to reassess the qualification of Retail Business department's personnel, because the performance of employees is one of the primary reasons for the organization's existence.

As for formal organization, the system of the Bank in stagnation, however it will facilitate to make the system healthier, cleaning it up on the asset side and bringing liabilities more in line with domestic sources, reducing reliance on international sources. Therefore, there is a necessity for improvement of financial management and operational efficiency by organizational restructuring and investment into information technology, and more specifically, Retail Business Department should continue the implementation of advanced information systems. Moreover, it is vital to revise the Human Resources strategy, streamline current bureaucratic systems by undertaking workflow analysis, and establish clear communication channels between.

Finally, from informal organization's perspective, there is a necessity of implementation of corporate social responsibility and business practices based on ethical values, respect of workers, citizens, and environment.

7. Assess the congruence - evaluate congruence between the various components of the organization (as specified in the model). There needs to be consistency between the four components involved in the change process, namely, work, people, formal organization, and

informal organizational arrangements in order for the change to be effective. It is important to draw attention to decrease of the number of management levels in Retail Business Department, reassessment of employees' qualification of current department, and revision of the Human Resources strategy of the Bank, as these issues are vital for further development of the Bank and its financial soundness.

8. Generate hypotheses - link the congruence analysis to the problem identification to identify key factors needing attention. The important factors that need proper attention are subsequent improvement of the financial position of the Bank, perfection of the efficiency of current workforce, regulation and cutting the unnecessary spending, and enhancement of service quality.
9. Identify action steps - indicate what actions might remove or reduce the problem. Taking into consideration the above-mentioned problems, it is recommended for the management of Retail Business Department to utilize the downsizing method, in order to dismiss the employees to improve the costs and increase the profitability.

Downsizing program

There are many definitions for downsizing in modern management literature. Downsizing can be defined as measures connected with elimination of excessive workplaces (Tomasko 1987, p. 66); Optimization of organization size (Manson 2000, p. 32); Strategy of organizational design, business processes, corporate culture, values, relations and mission transformation (Esther 2004, p. 54); Active or proactive strategy, the purpose of which is

optimization of organization size, decrease of production costs, transformation of business processes (Palmer, Dunford & Akin, 2009, p. 100).

From definitions it is understandable that downsizing is a complex operation (strategy) connected with optimization of organization size due to effective HR-activities implementation, transformation of company structure, and change of key purposes and business processes. From the given definition some distinctive features of downsizing are identified: a) Downsizing should not be considered as fundamental, radical, essential change in organization; b) According to some researchers, the firm should realize downsizing regularly (Burke & Cooper 2000, p. 58); c) Downsizing measures can be implemented within the limits of traditional hierarchical structure (Kirkpatrick 2001, p. 143); d) In downsizing proper attention is paid to reduction of workplaces (Randall 2004, p. 28).

It is necessary for “ Kaspi Bank” JSC to reduce workforce, change organization tactics to solve current problems. Dismissal of workers should be realized by eliminating certain amount of employees in Retail Business Department, particularly, those who work in Sale, Corporate Entity Service, Public Service, and SME subdivisions. Currently, corporate loan book growth is fluctuating around zero, and the outstanding amount of loans issued to individuals has fallen. As the Bank loses revenues, it initiated the cutting cost activities that are directed to dismissal of excessive workforce.

As a result, downsizing program will lead to the change of configuration of Retail Business Department (elements of objective organizational culture).

However, in this case traditional, hierarchical elements of organizational structure, and some business processes can disappear; It is quite possible the occurrence of atmosphere of changes and expectations of negative consequences in Retail Business Department. Moreover, there is a high probability of mass lay-offs of workers; consequently trade-union of “ Kaspi Bank” can organize strike, pickets, and demonstrations.

However, it is important to remember that downsizing program can change the values and ideology of “ Kaspi Bank”. For example, it is quite possible the transformation of some strategic, tactical and operational purposes of Retail Business Department of “ Kaspi Bank”. Then, priorities can be changed in mutual relations with stakeholders – balance of interests of “ Kaspi Bank” is displaced towards management and (or) shareholders. Obviously, the values of human resources work increases; and there is a possibility of marketing and financial policy change. Besides, there might be the changes in managers and subordinates relations, as emphasis becomes a social-psychological aspect works; and competition appears between the workers of Retail Business Department due to downsizing program. Finally, decision of management on minimization of negative consequences of downsizing program promotes strengthening of organizational culture of “ Kaspi Bank”.

Probable risks of downsizing program

During downsizing realization program nobody is insured from negative outcomes. Palmer, Dunford & Akin (2009, p. 100) downsizing may lead to the loss of important and skilled employees. Problems occur when companies are not open about the market situation they face and the future of their

remaining employees is uncertain. Palmer, Dunford & Akin (2009, p. 101) established that communicating future vision and strategy to shareholders, employees, and other constituents becomes an important change concern. As discussed, downsizing is not always the most appropriate and effective way to begin a restructuring program and many companies do not appear to seek initial alternatives to this method. Deciding whether to use a substitute method is a key issue that needs to be assessed by change managers.

Major downsizing risks

1. Incorrect choice of downsizing method
2. Anticipatory assessment of downsizing outcomes
3. Insufficient qualification of company management
4. Incorrect assessment of necessary resources for downsizing
5. Low motivation of downsizing process participants
6. Negative social consequences
7. Unqualified legal support of process

Incorrect choice of downsizing method

If Retail Business Department of “ Kaspi bank” has made decision on implementing operational downsizing, so following methods can be used.

Firstly, it is effective to use the methods of re-structuring a property complex, such as tenancy, reservation, liquidation, write-off of actives.

Secondly, methods of re-structuring of notes receivable, in particular, a recognition the debts as invalid, a delay or installments of a debt with the subsequent repayment, repayment of debts with the minimum costs, the repayment of the rights of requirements to the creditor with the subsequent

presentation of requirements and many other things. Thirdly, Retail Business Department of “ Kaspi bank” can use re-structuring methods of accounts receivable, among them repayment of debts with reception of the maximum economic benefit, a recognition of debts void, and also various forms of dismissal or reduction of number of employees.

However, if Retail Business Department of “ Kaspi bank” has already achieved high level of operational efficiency, it starts to use tools of strategic downsizing, in particular improves structure of a business portfolio of the company, and creates administrative and financial potential for new growth. Subsequently, it will assist Retail Business Department of “ Kaspi bank” to gain trust of investment community and will affect positively to results of its financial and economic activities.

Anticipatory assessment of downsizing outcomes

In practice, it is very difficult to determine the real results of structural changes. (Burke & Cooper 2000, p. 166) Company management often accepts negative short-term consequences of downsizing for its outcomes. In this case, it is quite possible that downsizing program can be curtailed, and strategic purposes are not reached. For minimization of this risk, it is significant for Retail Business Department of “ Kaspi bank” to elaborate competently the downsizing program with detailed description of all short-term results and target indicators, and also it is necessary to provide personnel with accurate determination of long-term objectives.

Insufficient qualification of company management

There are two ways of minimization of this risk. First, management of Retail Business Department of “ Kaspi bank” is dismissed, and a new management team is recruited. Second, specialized seminars and trainings are organized for current management team of Retail Business Department of “ Kaspi bank” to provide explanation of purposes and basic directions of downsizing. However, it is advisable to involve external experts to identify and manage this risk properly.

Incorrect assessment of necessary resources for downsizing

Traditionally, companies underestimate the complexity of downsizing (Burke & Cooper 2000, p. 167). Therefore, limited time terms are promoted for its realization, and usually insignificant number of experts is involved, and poor financing is allocated.

Low motivation of downsizing process participants

This risk implies not only various degree of interest of Retail Business Department of “ Kaspi bank” employees in structural changes. However, it also includes the conflict of interests, which can arise between management and shareholders of “ Kaspi bank” during downsizing, consequently can affect negatively staff motivation during the implementation of project. Aspiration of shareholders to achieve aims of downsizing should be transferred both to top-managers team and other managers.

Negative social consequences

(Tomasko 1987, p. 90) Occurrence of negative social consequences during the implementation of downsizing program is a normal practice, which

operates in the countries with market economy. It can be described as mass reduction of personnel from companies and organizations, dismissals in liquidated companies, and closings of companies of social sphere.

In Kazakhstan, reduction of staff and cutting jobs especially has been extended in 1990s. Now companies, under the influence of a state policy, change their attitude to corporate social responsibility, and declare the creation of new workplaces.

Unqualified legal support of process

Usually, there is a necessity to implement legal transformations during downsizing. In Kazakhstan the most widespread operation is the creation of several affiliated companies on the basis of main company. There is no authentic statistics in Kazakhstan about how many downsizing programs have been realized under such schemes. And it is obvious that implementing of legal downsizing without real organizational changes, financial and industrial systems' assistance is inadequate. On the other hand, legal support failure can affect negatively the transformations which have already been implemented in company.

Restructurization as alternative method

Primary cause for implementation of restructuring in Retail Business Department of " Kaspi bank" is low efficiency of their activity which is expressed in unsatisfactory financial indicators, in shortage of floating assets, in high level account and note receivables. Restructurization of Retail Business Department of " Kaspi bank" should be implemented for increase of competitiveness of department with the subsequent rise of its cost, also for

perfection of control system, the financial and economic policy of the bank, its operational activities, system of marketing and sale, human resources management.

(Senior & Fleming 2006, p. 114) Depending on company strategy and purposes, restructurization is divided as follows: operational and strategic.

Operational restructurization can be described as the structure change of the company for the purpose of its financial improvement (if the company encounters a crisis), or for the purpose of financial solvency improvement (Poole & Van den Den 2004, p. 234). Outcome of operational restructurization is the acceptance of transparent and more operational company. Operational restructurization promotes improvement of company activities in short-term period and creates preconditions for implementing strategic restructurization.

Strategic restructurization is the process of structural changes, which is focused on increase of investment attractiveness of the company, expansion of its possibilities on attraction of external investment and cost growth (Poole & Van den Den 2004, p. 237). Realization of restructurization of this kind is concentrated on achievement of long-term goals. Outcomes of successful implementation are as follows: increased flow of future net profit, growth of company competitiveness and market cost of its own equity capital. Implementing of both operational and strategic restructurization can cover all aspects of business system or separate components.

As outlined in Table 2. 1, in the first stage it is necessary to determine the purposes of restructurization of Retail Business Department of “ Kaspi bank”. Shareholders and management must identify what issue is problematic in current activity of Retail Business Department of “ Kaspi bank”, and what they wish to achieve as a result of structural changes. The further development of Retail Business Department of “ Kaspi bank” and accordingly outcome of restructurization program depends on how competently the purposes and problems are determined.

In the second stage it is significant to diagnose Retail Business Department of “ Kaspi bank”. The initial purpose of diagnosis is to identify Retail business department’s problems, define its weak and strengths, and understand development perspectives and profitability of further investment to this field. In diagnosis, as a rule, legal, tax, operational activity analysis is implemented; moreover the market and investment attractiveness of the bank is monitored. Also Retail Business Department’s financial condition, strategy and management activities are studied.

In the third stage the restructurization strategy and plan is developed. At this stage, alternative options of Retail Business Department of “ Kaspi bank” development are elaborated according to data that is received from diagnosis. For each option restructurization methods are determined, estimated figures are calculated, possible risks and volumes of involved resources are assessed. On the basis of various criteria shareholders and management of the bank make estimation of efficiency alternative options, according to which restructurization program is developed.

In the fourth stage restructurization of Retail Business Department of “ Kaspi bank” is implemented, according to the developed program. Experts’ team is formed which is involved in work, and then all stages of program are realized consecutively. In the fourth stage goal posts are specified, and when the deviation is occurred, Retail Business Department of “ Kaspi bank” carries out program of updating.

Finally, in the fifth stage restructurization program of Retail Business Department of “ Kaspi bank” is supported and estimation of its outcomes is provided. In the last stage the team that is responsible for realization of restructurization program, carries out the control over implementation of goal posts, analyzes the outcomes and prepares a total report on the done work.

Supplementary procedures to sustain restructurization

According to experience, many banks not only late in determination of causes of problems, but also do not consider these problems as interconnected issue. Consequently, efforts on overcoming the problems do not carry complex character, expenses increase and there is a high probability of occurrence of similar or new problems in future.

For example, decrease in sales volumes can be a consequence of several reasons: a) Non-competitive pricing; b) Changes in market demand; c) Poor quality of services; d) Loss of technological advantage; e) Lack of good strategy and sales system. (Esther 2004, p. 112)

It is necessary to implement simultaneous restructurization of Retail Business Department of “ Kaspi bank” for correction of negative dynamics of sales. Besides, such dynamics of sales, possibly, will lead to decrease in level of profitability of business and, as result, liquidities of business of “ Kaspi bank”.

What are the basic opportunities of improvement? It is necessary to designate only basic directions of transformation:

Improvement of financial outcomes of Retail Business Department of “ Kaspi bank” by changing of commercial service nomenclature to modern and profitable; changing of sale structure; optimization of business process; decrease of constant expenses; achievement of best conditions in bank; achievement of best conditions on service of existing bank debts; and optimization of taxation schemes.

Forecasting and management of cash flow in Retail Business Department of “ Kaspi bank” by reduction of payment terms under new contracts of service sales; optimization of capital investments program; liberation of money resources due to expense of reduction and management of accounts receivable; and management of note receivable level.

In the interests of shareholders and other basic interested parties, restructurization of Retail Business Department of “ Kaspi bank” should be implemented by determination of problems, without expecting their aggravations to a crisis stage. Major factors of such process are quickness of analysis, decisions and practical actions; ability of management team to

analyze the conditions of Retail Business Department and causes of negative consequences; ability of Retail Business Department management to implement complex transformations; strategic aims and purposes of “ Kaspi bank” shareholders; and interests of all basic involved parties.

Political issues of downsizing program

It is well known that organizational change is a process of transition of system to qualitatively another condition according to our representation of desirable future. As a rule, they are connected with transformation of business strategy, for example, expansion to new markets, merge and acquisition of other companies that is rather usual for Kazakhstan business at the present stage of its development. It is undoubtedly true that organizational changes are directed on increase of management efficiency.

Reforms in Retail Business Department of “ Kaspi bank” connected with control system change practically are implemented with participation of shareholders (whether reforms are implemented by external consultants, or independently). It is very important that Human Resources Department of “ Kaspi bank” with its chief manager has corresponding status that allows them to commence organizational changes, instead of simply serving this process.

(Burke & Cooper 2000, p. 311) It is obvious that there is possibility to avoid major problems in advance by consultations with initiators of changes to choose good approaches.

On the one hand, Human Resources Department of “ Kaspi bank” operates as consultant of shareholders and top-managers team, and on the other hand, assists to realise available plans. Along with the specified functions, Human Resources Department of “ Kaspi bank” in organizational changes operates as facilitator and catalyst.

Organizational changes cause always resistance from ordinary workers (Kirkpatrick 2001, p. 21); therefore Retail business department in collaboration with Human Resources Department have to overcome this resistance. To achieve effective realisation of organizational changes, it is important to undertake following steps.