

Issues of Improving Development Strategy in Commercial Banks of the Republic of Uzbekistan

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Abstract: In the article, the author focuses on the role of strategic development, strategic planning, strategic management strategy development, implementation and procedure in commercial banks. Moreover, the methods used in the process of strategic planning were studied, based on them, analyzes were carried out on the example of some acquired banks of our country, and their development strategies were compared. Proposals and recommendations aimed at improving the development strategy of commercial banks have been developed based on the studies.

Key words: banking, strategy, corporate governance, strategic planning, analysis, strategic development.



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Introduction

The current conditions of economic development and its variability create the need for banks to maintain their position in the market and develop strategic directions for their operation. A comprehensive and reliably developed development strategy provides opportunities for banks to accurately assess the financial potential of their development and spend it correctly and effectively in their future directions.

The successful operation of a commercial bank in the market depends not only on making modern and correct decisions in corporate governance, but also on a developed development strategy that takes into account various changes in the current environment.

With the instability in the international financial markets, as well as the increased competition in the banking sector, the issues of forming and improving the development strategy of banks remain relevant again. The importance and necessity of studying the development strategy of commercial banks is related to the fact that the correctly chosen strategy has a great impact on the growth of the bank's financial indicators and the overall rating, and the description of the commercial bank in terms of high reliability and financial stability. In this regard, as specified in the Uzbekistan-2030 strategy, special attention is paid to the issues of "accelerating reforms in the banking

system, increasing the size of the banking services market and developing competition in the sector" [1].

Strategic planning is a set of actions and decisions made by the stakeholders of a commercial bank, in which the banking organization develops specific strategies designed to achieve its goals. Strategic planning serves as the basis for all management decisions, because without the strategic planning process, it would not be possible to perform all the main management functions. Therefore, strategic planning is a management activity to create and maintain strategic alignment between the main strategic goals of a commercial bank and potential opportunities to achieve them.

Literature review

Based on the studies, it should be noted that strategy is the interaction of resources and factors that ensure the effective operation of companies and banks. In the scientific literature, there are different approaches to the study of the strategy and strategic development of companies. In particular, the American scientist M. Porter considers strategy from the point of view of competitive advantage, and the author of this approach also emphasizes the importance of competitive strategy [2]. This theory is also supported by Thompson, Strickland, and Baumen. According to other economists R. Anthony, W. King, D. Cleland, "policy is the announcement of the company's goals. Policy focuses on the direction of the decision-making process that ensures the achievement of the company's goals. In general, the policy helps to limit the alternative solutions that implement the strategy. However, the organization's strategy and its policies cannot be generalized. Strategy has a more fundamental nature and includes the concept of politics" [3]. M. Luca, Dj. Klyenberg and Sendil proposed an overly simplistic structure of the strategy. According to them, it is stated that it is sufficient to use the sequence of problems, causes and solutions in the methodology of creating the future projection [4]. Russian economist R.A. Fathutdinov "proposes to develop a two-stage system of the company's strategic plans: the company's strategy for a certain period; strategic plans that reveal the firm's strategy and ensure the achievement of strategic goals for this period" [5]. According to another Russian economist O. S. Vikhansky, "strategy is a long-term, qualitatively determined direction of the company's development, which refers to the means and form of activity, the system of relations within the organization, as well as the position of the company in the environment, its goals." [6]. According to Z.M. Anisimova, "strategy is a long-term business plan of a commercial bank, which ensures the achievement of accepted tasks and goals and provides for the coordination of the activities of each structural unit under the condition of ensuring financial stability" [7]. It is also noted that there is an interrelationship between banking strategy and banking policies. According to M.Mishinaga, "Bank's development strategy is a concrete document that includes certain actions necessary to achieve clearly defined goals" [8]. V. K. Potemkin compares the strategy with "the main action program that determines the priority problems and resources to achieve the main goal of the company. It forms the main goals and the main methods of achieving them in such a way that the company takes a single course of action on the way to this goal" [9].

Research methodology

The study of strategic planning and its methodological foundations in commercial banks was carried out on the example of some acquired banks of our country, and their development strategies were compared. It serves to form and evaluate the development strategy in corporate governance of commercial banks through a complex research of problems in this direction. In the preparation of this article, methods such as comparative comparison, data study and economic comparison and analysis, logical thinking, scientific abstraction, information grouping, analysis and synthesis have been widely used. Based on the studies, the main focus is on the structural structure of the banks' development strategy, its analysis, and the development of scientifically based proposals and recommendations based on them.

Analysis and Results

The development strategy of banks begins with the identification of their main areas of activity. Based on this, the forms of its implementation are determined. A strategy is a detailed plan designed to fulfill the task of any company and to achieve its intended goal. When a commercial bank sets a specific goal, it defines a strategy to achieve it. However, in practice, the chosen strategy does not always ensure success, because the development and implementation of the strategy does not yet guarantee the desired effect.

Strategic management of companies is a continuous process of strategy development, implementation and regulation stages, which allows the implementation of future activities in accordance with the strategic plan. The essence of strategic management is to form and implement a development strategy based on constant monitoring and evaluation of the changes taking place in order to survive in an unstable environment and maintain the ability to work effectively.

For commercial banks, corporate strategic planning is considered as one of the management functions aimed at setting goals and objectives to maintain the existing strategy or create a new one. Strategic planning in banks is a continuous process that incorporates three main elements and can be summarized as follows.

Table 1 Elements of strategic planning in commercial banks

№	Elements	Contents	Implementation period
1	Development of the bank's strategy	- the general strategy of the bank	5-10 years
2	Business plan	- the bank's business plan; - business plan of bank divisions and branches.	1-3 years
3	Budgeting	- the general budget of the bank; - budget of bank departments and branches.	1 year

Author's work based on data

As the main difficulty (or problem) that can be faced in defining the strategy in commercial banks, it is possible to point out the difference in the views of the bank manager and the bank team. This situation is based on the level of qualifications and worldviews of the leading specialists (department heads), as well as the internal culture of the bank, the management structure, and the methods of work organization.

It is known that the main purpose of developing a strategic plan is to determine the bank's need for the necessary resources for the implementation of the main strategic activities, as well as to coordinate the distribution of available resources between different areas of activity or bank divisions.

It should be noted that the strategic plan is significantly different from the traditional long-term plans, which must be carried out under any circumstances. A strategic plan should be flexible and allow to respond to internal and external conditions of banking, which in turn requires great effort and costs.

If the bank has a clear vision of future development prospects, goals and tasks and implements them, it can be said that strategic management is supported in banking activities. Strategic management is the decision of the bank to grow or decline economically. This process requires a comprehensive approach to the allocation of available resources to achieve the bank's objectives, as resources are usually limited.

The picture below shows the strategic plan of commercial banks.

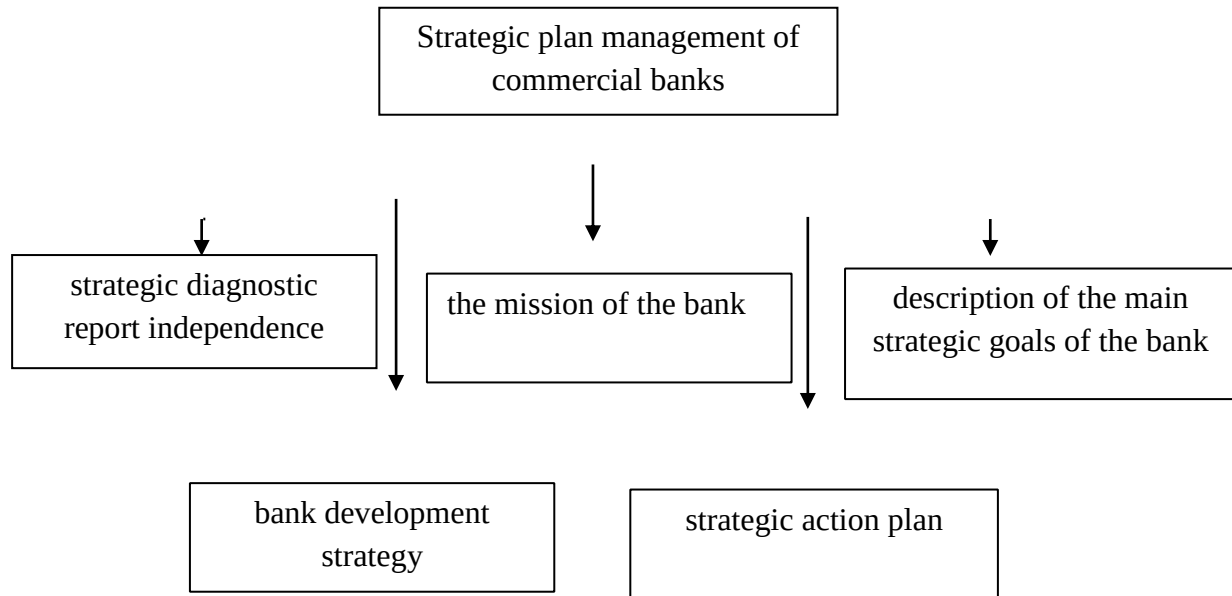


Figure 1. Strategic plan of commercial banks

It is known that the strategy is a part of the bank's mission and helps in achieving it, as well as in forming the goals and objectives of the activity. Through the strategy, the banking policy, which includes the bank's activities, as well as the system of practical measures of the bank's activity, is formed, and with its help, the means to implement the bank's mission are created.

It can be seen from the data that the analysis of the external factors affecting the bank's activity is necessary to determine and develop the general development strategy, as well as the marketing strategy. In the development of the external strategy, the general purpose of the commercial bank's future activity in the banking sector is formed. The analysis of internal financial environment factors is designed to describe the financial potential of the bank and the effectiveness of its use.

In the process of strategic planning, a number of methods are used for analysis, and each of them performs a specific function. The table below shows these methods.

Table 2 Methods used for analysis in the process of strategic planning

№	Methodologies	Summary
1	PEST analysis	It is used to analyze the external factors (political-legal, economic, social, technological) affecting the activity of a commercial bank.
2	M. Porter's 5 forces matrix	It serves to analyze the internal factors (level of competition, customers, suppliers of resources, substitute products, barriers to entry into the industry) affecting the activity of a commercial bank, the total configuration of which affects the profitability of doing business in a certain industry (return on invested capital)
3	SWOT- analysis	it is used to determine the opportunities and threats of the external environment in conducting banking activities, to evaluate the strengths and weaknesses of the banking organization

Author's work based on data

The development of a banking strategy is a very time-consuming process, in addition, it is selected from several alternatives, and then two levels of strategy are developed:

- corporate strategy;
- business strategy.

The corporate strategy determines the priority directions of the bank's development, defines the limits of its activity and determines the possibilities of conducting banking business; forms long-term goals of the bank and criteria for evaluating its activity; identifies risks and creates a capital plan; assigns financial tasks to bank units; regulates the system of mutual relations between the bank and its divisions and the redistribution of profits; determines the size and directions of large capital investments.

The business strategy, in accordance with the corporate strategy, defines the goals and objectives of the development of a specific business; defines the product and market portfolio of the business; defines the organizational concept of business and the criteria for evaluating the activities of departments; also includes functional strategies that describe a set of activities that should be carried out directly in functional units to achieve goals. After that, a new business model is developed and investment and resource plans are formulated. After all the above steps, the developed strategy is sent to the Supervisory Board for review.

The main aspect of activity for each bank is the goal orientation reflected in the development strategy. Banks are developing a completely individual strategy aimed at realizing their strategic goals.

Studying the issue of development strategy formation requires pre-determining the problems of strategy selection, development and implementation of a particular commercial bank. In this regard, Agrobank joint-stock commercial bank (JCB) as a research object, information on its specific development strategy was studied. "Agrobank" JCB is one of the universal banks of the Republic of Uzbekistan, engaged in the implementation of state programs, as well as providing services to clients in a commercial direction, and it ranks 5th in the country's banking sector in terms of assets [10].

The main activity of Agrobank JCB is the implementation of state programs in the country's agriculture and small and medium business, as well as commercial corporate and retail business. The main task of the bank was to implement the functions of a market instrument of state support in sectors and segments of the economy, especially in agricultural enterprises, to support the formation and operation of the national credit-financial system, to effectively satisfy the solvency demand of business and the population in high-quality banking and related financial products and services.

Agrobank JCB has established a network of farmer schools to support and train farmers and agricultural producers in the regions. These schools advise borrowers (both in person and through a call center) on agricultural support programs, available products and their terms. In addition, the centers conduct training sessions, as well as help in the preparation of a set of documents necessary for obtaining a loan, including a business plan, financial statements and other tasks.

The strategy developed by the bank included qualitative indicators as well as quantitative indicators. The main direction of the bank's activity will be the desire to develop retail lending for the transfer to the universal system. The bank will also consider the possibility of establishing a farmers' market to facilitate interactions between farmers and wholesale and retail buyers of their produce. The following goals were set for this task:

- ensuring the leading position in crediting and providing services to agricultural enterprises and related industries;

- strengthening the bank's position in lending and providing services to the priority sectors and sectors of the economy of the Republic of Uzbekistan;
- strengthening the position of the bank as an efficient, reliable and high-tech financial institution.

The following table shows the main quantitative directions of the goal set by the bank.

Table 3 The main forecast indicators of Agrobank JCB development strategy, (for 2020-2024)

№	Indicators	Unit of measurement	Amount (target)
1	Bank's net profit	billion soums	254,9 – 921,0
2	Total loan portfolio (net)	billion soums	24 777,2 – 50 919,4
	Including, in lending to state programs		
	- share of cotton farming	percentage	26,6 – 27,3
	-share of grain cultivation	percentage	18,8 – 22,9
3	Credit departments	piece	170

<https://agrobank.uz/uz/shareholders-and-investors/financial> Author's work based on Agrobank's data

The main directions of the bank's strategy are as follows:

1. Support of agricultural network enterprises. Continue to provide credit and customer service to agricultural industries, participate in government agricultural programs, and attract customers from other commercial and attractive sectors.
2. Development of large business. Development of revolving lending in banking activities, attraction of client funds through development of remote banking services, and increase of the share of commission income.
3. Financial support of small and medium businesses. Fulfilling the objectives of the state program of agricultural development, lending to small and medium businesses; increasing the share of credit products aimed at the development of various economic activities in rural areas.
4. Development of retail business. Development of retail business based on the existing customer base, optimization of activities aimed at attracting new customers, as well as entering the TOP-5 in the development of digital channels for customer service, increasing the number of customers using internet banking.
5. Development of modern marketing of banking products. Development of universal and diversified banking services and development of specialized products in this area.
6. Working with troubled assets.

Based on these directions, the main strategic directions can be distinguished as follows:

- technological development or introduction and development of remote banking services (RBS);
- development of lending to different business segments (small, medium, large);
- support of agricultural enterprises;
- risk and capital management;
- introduction of international principles and norms to banking activities.

Based on the study of the activities of commercial banks in our republic, it should be noted that special mechanisms for the implementation of the development strategy of commercial banks should be formed, and they can be cited as follows:

- management of changes, monitoring of the implementation of programs and projects is carried out by the head office of the bank;
- annual business plans are integrated with the bank's development strategy documents;
- analysis and evaluation of the impact of external factors affecting the bank's activity is carried out continuously;
- results are regularly monitored.

When the development strategy of Agrobank JCB was analyzed, the indicators of the level of fulfillment of its quantitative indicators for 2020-2023 were as follows.

Table 4 Implementation of the main quantitative indicators of the development strategy of Agrobank JCB (as of 01.01.2024)

№	Indicators	Unit of measurement	Amount(target)
1	Bank's net profit	billion soums	661,1
2	Total loan portfolio (net)	billion soums	57 491,5
	In lending to government programs		
	- share of cotton farming	percentage	26,5
	-share of grain cultivation	percentage	22,4
3	Credit departments	piece	170

Author's work based on data

As can be seen from the table, it appears that almost all the planned quantitative indicators have been fulfilled by 2023. Only 0.1 percent of the share of cotton farming in the crediting of state programs was not fulfilled. Overall, Agrobank JCB is showing good results in meeting the planned quantitative indicators set in the strategy.

A general analysis of the position of Agrobank JCB in the market of banking services can be concluded about the stability of its financial indicators, which helps it to occupy leading positions in financial ratings. Although the bank's activities are universal, in most cases they are based on providing services to agricultural enterprises. Unlike competing banks, Agrobank JCB is a state-owned bank.

Table 5 A short analysis of Agrobank JCB's strategy for 2021-2024

№	Description	Strategy
1	Implementation period	4 year
2	Current execution results	In the process of implementation. Most quantitative indicators are close to the target
3	Goal	Meeting the needs of the participants of the state program in the current customer-regions. At the same time, the development of corporate and retail lending. Focusing on the universal system
4	Direction	Technological development of activity (development of remote banking services). Lending to different business segments. Support of state programs. Risk and capital management. Application of international norms related to banking activities.

5	Quantitative indicators	Raising the loan portfolio to 51 trillion soums. Reducing lending to state programs to 28.8%, increasing lending to legal entities to 63.4%. Increasing lending addresses.
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Author's work based on data

According to the data, the main financial indicators of the bank have reached the level of the forecast in the last two years of operation. However, an analysis of the competitive environment is required to assess the bank's development strategy. An important result of the analysis of the competitive environment in the banking sector is the development of a strategy to weaken the strengths of its competitors, and as a result, it is important to achieve an increase in the competitiveness and efficiency of the commercial bank. In this regard, we believe that commercial banks should carry out a strategic analysis of their activities.

The following table presents the strategic SWOT analysis of Agrobank JCB.

Table 6 Strategic SWOT analysis of Agrobank JCB

S- Strengths	W- Weaknesses
- a team of experts with deep knowledge and experience; - the bank's assets, loan portfolio and number of clients are one of the leading banks; - the number of branches and presence in all regions of the republic; - development of the largest networks of ATMs and terminals and remote service channels; - possession of a large retail customer base; - transformation of operational activities, including introduction of KPI system, improvement of IT infrastructure; risk management system, etc. - the availability of state support and low-cost financing for the implementation of programs in priority sectors	- low level of automation of processes and large number of employees and high administrative costs; - lack of awareness of the bank's services to the main agricultural sector, population and other businesses of the bank's commercial initiatives; - Inadequate development of the risk management system; - lack of segmentation of retail and corporate customers; - a high share of loans to agricultural enterprises and the risks associated with them; - high level of capital in bank assets and high cost of funding
O- Market opportunities	T- Market threats
- introducing technological innovations into the banking sector; - increase the scope of remote banking services; - development of Islamic financing opportunities; - active introduction of new products and services to the market; - growth of demand for international banking operations of corporate and retail clients; - cooperation with international financial institutions; - state support for lending to priority sectors.	- high share of the informal economy; - low level of financial and technological literacy of the population; - difficulties related to internet access and its speed; - strengthening of regulatory restrictions on capital requirements and introduction of a risk-based approach; - growing competition with other banks; - active development of private banks.

Author's work based on data

Studying the development strategies of some commercial banks of our republic made it possible to distinguish them into two groups:

1. Conservative strategies. These strategies have three or more directions and are long-term.
2. Modernized strategies. These strategies have three main and grouped directions, with a short period of time for their implementation.

Development strategies of banks have a number of advantages and disadvantages.

The advantages of the conservative strategy are that it includes many directions and tasks that describe in detail measures to improve certain aspects of the bank's activity. A detailed description of the instructions is very important in the formulation of the strategy, because bank employees and customers can see the specific results that the bank is striving for, as well as the ways to achieve them.

However, when the list of the bank's activities and tasks is narrowed, it focuses more clearly on the priority goals of the strategy implementation, and therefore it is easier to understand them. These areas can include, first of all, increasing customer loyalty, developing technological support, and expanding the field of activity.

It is also important to note the difference between the strategies' implementation periods. A long period of implementation of the bank's strategy can lead to the emergence of various economic risks. Therefore, strategies formulated for a short period of time (three years) have priority, as they can be more flexible over time.

The following table presents the comparative analysis of the strategies of some commercial banks of the country.

Table 7 Comparative analysis of the strategies of some selected commercial banks of the Republic of Uzbekistan

№	Banks	Period of implementation of strategies, year	Number of strategic directions	Direction
1	Agrobank JCB	5	5	Agricultural enterprises and other industries
2	National bank of Uzbekistan (UzMilliybank) JSC	5	3	Wide customers base and strong market position
3	Asakabank JSC	3	6	Customer volume and loyalty
4	Ipotekabank OTP group	3	7	Increasing the attractiveness of banking services and optimizing the tariff policy
5	Trastbank JSC	5	3	Expanding the service network and effectively introducing innovative products
6	Poytaxtbank JCB	3	4	Provision of retail banking services to individuals and legal entities

Author's work based on bank data

Thus, based on the analysis of the development strategy of Agrobank JCB in a competitive environment, it is possible to make recommendations for improving strategic planning in such directions as shortening the period of strategy implementation, setting more specific goals, expressing tasks in the form of quantitative planned indicators.

However, compared to the main competitors in the banking system, the strategy includes many individual directions, which reduces the focus on the main tasks of the bank. Competitors' strategies tend to introduce a universal management system, which indicates the similarity of the lines of activity. In its strategy, Agrobank JCB has set a priority goal of implementing the development of agricultural enterprises and related industries through the state program.

Conclusion and Recommendations

The analysis of the existing development strategies of selected commercial banks showed that the functional components of most strategies are:

1. Financial strategy aimed at increasing the market value of the bank.
2. Marketing strategy focused on increasing customer base, increasing consumer loyalty and markets.
3. Personnel management strategy aimed at creating a personnel training system, motivation and evaluation of personnel.
4. Information strategy aimed at creating a single database containing information on all areas of banking activity.

While studying and analyzing the activities of commercial banks, it should be noted that development strategy development in commercial banks is a complex and long process that is carried out in several stages.

As a result of the research, an algorithm was developed to improve the development of the bank's development strategy. According to the proposed algorithm, the development of the bank's development strategy consists of 5 stages, each stage is presented separately with the main issue and ways to achieve it.

Table 8 Algorithm for improvement of development strategy in commercial banks

Steps	Name	Summary
Step 1	Strategic diagnosis of the bank and the external environment affecting it.	- the strengths and weaknesses of each direction of the commercial bank's activity are determined; - the general development trends of the country's banking sector are forecast; - the main segments of the banking market are identified and described; - the position of the bank in relation to its main competitors is analyzed.
Step 2	Development of the general concept of the bank's strategic development	-views of banking business are determined; - the bank's mission is activated; -several alternative development strategy options are offered at the same time; - the direction of strategic development of the bank is determined; - specific strategic goals are set.
Step 3	Detailed development of the bank's strategic development plans	- the main directions of the bank's development are determined; - the composition of bank products and sales

		channels for the target group of customers are determined; - goals are formed according to the main directions; - bank development plans are developed in selected areas.
Step 4	Creation of internal infrastructure of the bank	-preparing decisions on choosing effective methods of motivating bank employees; - optimization of business processes
Step 5	Development of operational plans and implementation of strategy in banking activities	- development of operational plans for all main activities of the bank; - connection of operational and strategic planning processes, as well as preparation of decisions on monitoring the implementation process of prepared strategic plans of the bank.

Author's work based on data

Based on the conducted research, we were able to develop the following proposals aimed at improving the development strategy of commercial banks:

1. Shortening the period of implementation of the strategy of commercial banks. Based on the studies, we suggest to consider this period as an average of three years, because this period helps to reduce the risk of carrying out banking activities in accordance with the development strategy, at the same time, it increases the flexibility of the strategy to changes or innovations related to the banking system of the country every year. In our opinion, the development of the recommended three-year operating parameters will help ensure the long-term operation of commercial banks as a profitable commercial organization, their consistent development based on strengthening their stability, increasing their competitiveness and ensuring the reliability of the planned risk management system.
2. To divide the bank's activities into large groups and to reveal them through separately defined tasks. In our opinion, it is recommended to divide the number of activity areas into the following three large groups:
 - developing customer loyalty. This is achieved by attracting new customers through the improvement of banking services, increasing access to banking services for all types of customers through the development of digital banking services;
 - expanding the scope of activity by opening new offices, ATMs, terminals;
 - development of technological supply. This in turn has improved the convenience of remote service by increasing the scope of paperless work flow.

The implementation of these recommended measures will help to make the strategy simple and understandable, and to simplify the work, as well as reveal the main priority directions of the bank's activities.

3. Determining the direction of implementation of banking activities (or universalization or specification). Depending on the chosen field of activity, a commercial bank can focus on one main goal (for example, specificity focused on agriculture or universalization in providing all banking services to customers).

Despite the fact that Agrobank JCB is a universal commercial bank that provides all types of banking services, it occupies a leading position in the financing of agricultural enterprises of the Republic, and is distinguished by the strong influence of the state on this bank. The focus on lending to agricultural enterprises, together with the fact that the bank is of great importance for

the economy of our country, allows to provide financial services to all types of clients on time and under highly equal conditions.

4. To include directions of technological development and increase of customers in the development strategy of the bank. In order to increase the customer base, mortgage and consumer loans should be prioritized in the bank's services. In order to increase the level of technological development, it is necessary to actively continue work on the introduction of new banking technologies. The technology market offers many useful solutions that can be adapted to the needs of customers.

These proposed recommendations will have a positive effect on the implementation of commercial banks' activities and the development of development strategies that will have a positive effect on improving their financial results. These recommendations, in turn, help not only to increase the volume of lending to individuals, but also to attract new customers (both individuals and legal entities), to increase the loyalty of bank customers, and to achieve a stable position of the bank in terms of indicators in international and national ratings.

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