The Measurement Methods in the Evaluation of Banks Performance

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Abstract- The study focuses on the measurement methods in the evaluation of banks performance in a Libyan context. It is the first study in Libya which involves three major Libyan banks The aim of the study is to realise the fitness of applying the measurement methods in the evaluation of banks performance to Sahara Bank, Gumhouria Bank and the Al-Umma Bank and the objectives are to: recognise dimensions of the measurement methods with the strongest impact on the level of the evaluation of banks performance, try to identify the financial performance assessment of the banks and the indicators used in the criteria, interpretation and knowledge of trends and developments and recent studies in this area, clarify that the indicators and methods in one of the financial and economic institutions have a very important impact in improving the performance and efficiency and develop conceptual framework for the measurement methods in the evaluation of banks performance in a Libyan banking sector context, employs from Arab and Western literature and the findings of the study. The study is a basic quantitative research, descriptive, positivist, deductive, employing a survey research approach using questionnaires.

The key contribution of the study is the development of a conceptual framework of the measurement methods in the evaluation of banks performance, which contributes to the conceptual and theoretical knowledge in the topic of the evaluation of banks performance provided by the banks in a Libyan context.

Index Terms- measurement methods. evaluation of banks performance financial performance assessment

I. Introduction

The performance evaluation is of the subject of great importance seriously evaluate for any economic institution was or financial, especially in the current period in which the world is witnessing new developments in all fields, leading to the collapse and bankruptcy of many companies and banks, which were among the main causes of its collapse or bankruptcy and the difference in contradiction issued by these institutions and the real performance accounting data. And banks process is necessary and urgent to assess the performance of the banking sector is witnessing shifts and important reforms; and assess the impact of these reforms on the performance, and the efficiency and productivity of the banks, and the extent of rehabilitation to compete with regional and international banks. In order to determine the actual performance of the banks used many of the indicators and methods, the most important of the so-called indicators and methods of model ROE who knows the traditional manner, and in view of developments in the banking industry and economic reach some bankers researchers to seek other models as an alternative to the traditional indicators the economic value added in the model as a new approach in the performance appraisal process, as well as banks assess the system in accordance with the indicators resulting from field-testing process.

That measure the performance of a permanent and continuous banks operating indicators for its guidance, warning decision makers and policy makers the possibility of banks' exposure to the financial crisis and to address the problem of research, has been relying on the following:

-The collection of information is an important step to facilitate the process of evaluating the financial performance of the one who provided the enterprise.

-The adoption of the measurement and evaluation of performance by the bank's management, would gi ve a positive and allows them to determine the possibility of deviations and their causes and how to address them.

Measurement indicators

Performance evaluation indicators are ratios reflect the mathematical relationship between two variables have the meaning and interpretation of an analysis tool that provides the analyst in most cases be inferred and the keys of knowledge, analysis and interpretation properly paid analyst to areas that need further research and survey, a future-oriented tool, any analyst will be able to adjust and settle matters relating to or in a relationship to fit the shape and size of the potential in the future, and therefore the usefulness of financial ratios based on its interpretation smartly and ski ll, which represents the most difficult aspect of ratio analysis.

As previously noted that the financial ratios is a relationship between two variables are designed to reflect a certain evolution of financial numbers homogeneous benefit in comparison with the previous financial ratios or with patterns established, as stating the bank's management in decision-making and policy-making, this relationship must be clear and specific and significant, we can measure their strengths and weaknesses, and enables us to make horizontal comparison of certain financial ratios for another period comparisons vertical or a comparison harmonious proportions to each other and find a correlation between them.

Based on the foregoing, we can classify the criteria and indicators on which to base them in the evaluation of the efficiency of the banking performance into two groups:

The first group:

And it includes criteria and indicators that are based on how the achievement and the method used in the implementation of the directives administration, which more than to get to the best banking services and that from it can achieve the objecti ves underlined, in other words, that these standards relate to workers and how to deal with customers and try to satisfy them and include the following:
• good reception and the way of dealing with customers.
• speed of service provided to customers.
• the extent to which bank customers to deal with him.
• stability of the employees in the bank and their association with him.
• conviction Career Center workers who occupy and responsibilities assigned to them.

These interrelated indicators and overlapping can not be separated, as when there is a conviction among working career his position and he felt relieved because he holds his rights, it creates has the desire to work, and adhere to the institution in which it operates, which lead to stability in it.

Generate the desire to work for the empl oyees in the bank means to provide the necessary efforts to satisfy customers, and that is evident in the good reception of customers, and the completion of tasks and services as soon as possi ble, which the customer pays to stick to the bank that deals with him and be faithful to him.

These indicators have a role and a direct impact on the second set standards, which we call the digital standards of the results achieved from exercising banking functions and which seeks to achieve the objectives of the bank.

The second group:

Digital criteria for the results of the exercise of banking functions, that these criteria and indicators show us digitally what has been achieved as a result of the exercise of workers to their jobs in the framework of which the objectives are and include the following:

Making profit and profitability indicators
Considering that profitability is the goal pursued by the bank, so there is a set of standards that can be bui lt upon in the assessment of that, and we mention the most important below:
I) the rate of return to private capital.
2) the rate of return to funds available for hiring.
3) the rate of return to total assets.
4) the ratio of d ividends to owners
5) the ratio of net assets available for benefits for employment.

Model economic value added (EVA) (economic value added)

As a result of developments in the banking industry, has become a model ROE fact the financial position of banks does not appear accurately and on this basis I had to make financial search for a new measure of the decision-making methods and performance evaluation, such as the use economic value added model.

1. Definition of economic value added

Economic value added is a measure of the remarkable performance, measure if net income exceeds
the established cost of capital.

1 - economic value added benefits

(A) have a stronger link with the composition of the market value of any measure of profitability- and that as economic value added more accurate measure of profitability measure.

(B) it can be used as the basis for all decision-making processes, and the development of financial strategies to accurate the results obtained using the basis of economic value added scale and thanks to which the Department can make sound financial decisions and to develop appropriate strategies. (C) considered effective as a program of incentives: results from the use of economic value added programs motivate employees and which is characterized by justice and relying on productivity through the use of performance information as a basis for wage where managers can motivate be able to compete.

2 - aspects **of economic value added difference from the indicators ROE**

economic value added is different from the traditional standards in that they move away from the accounting imbalances when Gains: allow the accounting principles generally accepted set of accounting rules accepted each accounting problem, allow any management falsifying statements Finance resulting in redistribution of wealth and risk distribution, and thus distortion of the Bank's performance using those policies that affect on its financial position, and therefore the extracted ratios of the financial statements.

3- **equation of economic value added (EVA) (economic value added)**

This is among the most modern doorways which raised financial concerns and specialists and gave the comprehensive nature of the concept of value creation in his philosophical and practical also, entrances EVA and MYA Despite the presence of a huge number Assessment of the proposed indicators, which is characterized by frequent criticism in the application and above this, and it is not the most dynamic, all entrances or indicators proposed by the speciali zed consulting offices agree to adopt the concepts of:
* Economic result.
* The cost of capital.

However, the differences among these approaches are limited in most cases the treatment method and the extent of interdependence:
* Financial architecture and established economic environment.
*The overall market (active, competition, risks, the laws that govern it, ...).
*Accounting methods (which change with the change of activity established).

It is worth mentioning in general reminder to the concept of value, which is given to the relationship of the following

Value= economic result- the cost off unds and in our conversation about the cost of funds, is meant by the cost of all of the entity's resources, ie, the cost of money and the cost of debt or third party funds. Taking into account the correlation rate of acquisition debt in the market and is the interest rate, and the money they take reference rate of regular distributions and the ultimate aim is to increase the value of the stock and then additional value for shareholders. In other words, increase the economic result on the total cost and thus create value for the owners, and the economic value added represents the difference between the result of exploitation and the cost of funds and is given by the following:

EVA = (+exploitative result after tax (RE))- (Investment funds x weighted average cost of funds
(WACC. CE)).
EVA = economic value added, or cash flows (in the form of liquidity) after all possible transfers and rebates.
CE)) represents the capital and which consists of: private funds+ version as the value of
accumulated premiums + Support and semi-private funds+ net financial debt of the Treasury advances
RE)) as a result of exploitation and are the same economic result.
WACC =weighted average cost of funds.

Banks assess the system according to the CAMELS indicators resulting from field-testing process

The importance of leading and early warning systems of their value as permanent and continuous tool for guiding and warning and warning to decision-makers and policy-financial indicators policies the possibility of exposure economy, financial crisis or currency crisis, and the introduced them prospects occur in early before the event to take the necessary policies, procedures and preventive or proof of the occurrence of crises.

The emergence of standard CAMELS

One of the first countries that used the criteria for early warning of the United States because of the banking collapses that suffered in 1933 and declared under bankruptcy more than 4000 almost a local bank, and that was one of the reasons for the establishment of guarantee bank deposits Foundation, where the entire banking system to the phenomenon of loss exposure and defends public confidence towards the banks to withdraw their deposits, and then a similar collapse in the science event in 1988 led to 221 bank failures.

Began using the criteria for early warning in the United States since 1979, where the Federal Reserve Bank under the classification of banks and extending banks the results of the classification without dissemination to the public that the banking authorities were able to predict collapse banking before it occurs, tell the number to only 3 in 1998, reflected the results ofthe classification of American banks by Standard CAMELS a comparison for the periods mentioned good results for the performance of banks in the end of the first quarter of 1998 compared to the results in 1988, the results of the classification for the first quarter of 1998 showed that all local banks are located in category I and 2 and that more than 40% enjoying the classification No. 1.

We have raised the results of the analysis conducted by the US Federal Reserve Bank many questions about the credibility ofthe standard in the safety of the financial conditions of banks measure, and economic analysts find this bank that the results shown by the use of this standard in the detection of anomalies banks and the extent of determining the banking safety were better than the results wh ich used traditional statistical analysis, which was followed by the use of the standard, as studies have also demonstrated the ability of the standard to determine the degree of risk the bank before undetected across the market and the price mechanism and several months later and it has demanded a lot of researchers and analysts need to disseminate these results to the public in order to know the facts and thus improve their abi lity in the evaluation and selection to deal with that pose less risk banks and the best performance, and saw these researchers need to include the results of the analysis of standard CAMELS within the annual financial statements disclosed the bank to the public and thus achieve a high level of transparency as helping to impose market discipline is one of the fundamental pillars upon which the decisions of the Commission Basel II banking su pervision.

But there is disagreement about the possibility of publishing the results ofthe analysis of standard CAMELS to the public between the pro and exhibitions, there are those who see it in a very secret so only limited to the regulatory authorities even published does not affect the public in banks, trust and banking system as a whole, while others see the need for dissemination of the ownership of the facts to the public and then take a decision on the matter as long as aware of that publication does not affect the safety of the banking system and lead to failure and collapse as a whole.

Second: the evolution of the standard CAMELS and working mechanisms of this standard has passed through several stages before it becomes in this way

A. Standard CAEL:
I -defined: The tool Banking Supervision office depends on the analysis and review of rents (profit annual) sent from the banks of the Central Bank and then work to assess and classify them based on the four elements of the six components of the standard CAMELS is the capital adequacy, the quality of the products, profitability, liquidity and Standard includes an element management and direction of the market risk sensitivity.

2. Standard features CAEL:

• is a tool for early warning and to identify weaknesses in the banks and the index for field
inspection across the way CAMEL and is therefore complementary to the standard CAMEL is no alternative to him.

• rely upon the regulatory authorities to take the necessary decisions in the case of lapse of three- quarters or more from the date of CAMEL report the percentage of change is expected to occur in the financial position of the bank in question during that period.

• You can work from a standardized assessment of banks combined on a specific date unli ke CAMEL standard, which depends on the evaluation on the date of the inspection, which makes it difficult to work a comprehensive assessment of the banks at a specified date.

Financial ratios according to the financial statements

A- The balance sheet ratios

As the accountants know, the balance sheet consists of two sides, the funding structure and the uses. So, there are ratios belonging the funding structure, and other belonging the uses. In this case, the researcher will talk about these ratios, are as follows:

1- Consistency in the funding structure.

We will extract the ratio of each major group of funding sources to the total funding sources as follows:

- Rates of shareholders' equity in the funding structure

= (Shareholders' equity + li abilities) x I 00

- Ratio capital to liabilities

= (capitai +Jiabilities) x 100

- Ratio of retained earnings to liabilities

= (retained earnings + liabilities) x 100

- Ratio of current liabilities to liabilities

=(current liabilities +liabilities) x 100

- Ratio of long-term liabilities to liabilities

= (long-term liabilities+ liabilities) x I 00

2 -Consistency in uses structure investment

These ratios related to the uses side which done by finding the proportion of each element in the assets and compared to the group which it belongs, and this process is to see the side of asset in the balance sheet in order to complete the picture in the process of assessing the facility and the most important of these ratios as follows:

Ratio of fixed assets to total assets

= (Fixed assets + total assets) x I 00

- Ratio of current assets to total assets

=(Current assets ..,. total assets) x I 00

Thus, we calculate the ratio of each element of the fixed or current assets to total current assets or fixed. In order, to know the relative weight of that element, we are calculating the ratio of cash to total assets or machines to total fixed assets and so.

B- Income Statement ratios

I - Profitability ratios:

We have referred to these ratios in the past, but they consist of the following:

- Ratio of total operating profit.

This ratio uses to determine the efficiency of management in dealing with the elements of cost of sales and their ability to control in these costs. And this ratio as follows:

Ratio of profit gross from operations = (total operating profit+ sales net) x 100

And this ratio can be formulated as follows:

Ratio of profit gross from operations= [(sales net- cost of sales) 7 sales net] x 100

- Operating profit margin (before the interest and taxes):

= (Net profit from operations before interest and taxes 7 net sales) x I 00

This ratio use as a measure to the operating efficiency, because the administration cannot control the benefits or tax or revenue and other expenses, and therefore should be a screening process for all elements of expenses to know the trends of expenses, then determine the defects and then look for solutions. This procedure is necessary as one of the control procedures and performance evaluation.

- The margin of profit (after-taxes):

= (Profit - taxes 7 net sales) x I 00

The margin of profit after-tax is important because it tells investors the percentage of money a company actually earns per dollar of sales. This ratio is interpreted in the same way as profit margin - the after-tax profit margin is simply more stringent because it takes taxes into account.

2- Expense ratios.

After we knew the direction of profitability in the company by using the profitability ratios, we should know the direction of expenses which called the cash flow. As we know, the expenses lead to lack in assets or increase in liabilities or both.

Many companies make big profits, but some unjustified and unnecessary expenses lead to reduce the profits. So, the management can use these ratios as one of the control methods to know the good decisions in expenditures, wages and salaries. For example, were the increases in wages and salaries based on productivity or no? Also, has the individual productivity increased or no?

In other hand, helping the marketing department to increase the demand for goods by highlighting the advantages Item that produced by the entity and the definition of the public out. Then, there is a possibility to the demand for the goods will increase. That helps the entity to read contribution of marketing department through sales analysis and knowledge of its direction to other methods. Also can take advantage of these ratios in matters of ad ministrative corruption and abuses by comparing and analysis the cost elements with similar entity to determine the prices, costs and expenses real. And these ratios as follows:

Total expenses to total revenues= (total expenses *I* total revenue) x I 00

A- Capital expenditure to net sales= (capital expenditure *I* net sales) x 100

A- Marketing expenses to net sales = (marketing expenses *I* net sales) x 100

B- Commercial expenses to net sales = (commercial expenses *I* net sales) x I 00

C- Ratio of wages to expenses = (wages *I* total expenses) x I 00

D- Ratio of rents to expenses = (total rental *I* total expenses) x I 00

And so, the analyst continues in calculate the proportion of each element of the expenses to the sum of total expenditures. In order, to know the relative weight of each element of the expenses as well as to find out which expenses have significant weight and affect the profitability of the entity, studying the reasons that behind the increase in these expenses and try to treat these reasons.

3- Standard ratios.

Standard ratios are placed according to scientific bases as well as on some forecasting methods which are based on the outcome of the values of the actual implementation of the entity for the previous years. So, the entity management is seeking to achieve them, and taken advantage from these ratios in the process of planning and control of the various activities. Also, provide these ratios to entity management or financial analyst the possibility to compare of these ratios with actual ratios that have been achieved, and by them we can know the amount of distractions and then analysis the underlying causes of these deviations.

And these standard ratios differ from each other. Some are specific to a particular industry where there are acceptable rates or convention in a particular industry, and there ratios adapted from similar entities or competition that successfu l in their work. Also, there are ratios derived from the same entity, through the experience which gained in previous years. The standard ratios are very important to the planned to develop plans for the future and performance evaluation.

There are different ways to extract these ratios, including:

a. Method of SMA.

We take the arithmetic average for a number of years. Where are collected the values of those years and divide the total by the number of years, as in the following:

Example:

The balance of debtors to the entity for the years 2001-2006, respectively (in dollars) as follows:

7000-9000-8000-10000-11000 -12000

The answer:

The arithmetic average = (7000 +9000 +8000 +10000 +11 000 +12000) -;.. 6 = 9500

So, it is expected to be the balance of debtors of this entity in 2007 ($ 9500). b. Time-average method.

It calculates as follows:

Example:

The Inventory turnover for one of companies for the years 2001-2006 was, as follows:

1.5 - 1.7 - 1.8 - 1.6 - 1.9 - 1.4

The answer:

First, we arrange the values in ascending or descending order. Here, we will arrange

them in ascending order as follows:

1.4 - 1.5 - 1.6 - 1.7- 1.8 - 1.9

Second, to extract standard ratio for the year 2007 will do as follows:

We take the arithmetic average of the first two proportions (1.4 +1.5) *I* 2 = 1 .45

Now we will take this result (1.45) with a third average 1.6 and calculate the arithmetic average as before (1.45 + 1.6) *I* 2 = 1.52

And so, we continue until last value as follows: (1.525 +1.7) -;.. 2 = 1.613

(1.613 +1.8) -;.. 2 = 1.707

(1.707 +1.9) -;.. 2 = 1.8

The last result is a standard ratio of inventory turnover in 2014.

II. Results

};>Forcing commercial banks to give real estate and commercial loans as well as loans to the public sector and without economic feasibility studies and without the presence of any guarantees sufficient and this is what was noted from the financial statements analysis ratios.

};> Rising is not mentioned in the solvency ratios despite the high volume of assets and property rights.

};>Deficiencies in the administrative organization. Through the questionnaire notes that most of commercial banks do not have a modern administrative structures holds the process of determining the functional levels and functions involving underneath, and functions corresponding to each function, and the functions of these functions and responsibilities, and described the theoretical and practical to her, and specific requirements for the occupants of these functions, and evidence of the work written for how to accomplish Business related to each of them.

};>Lack of benefit from the results of the financial analysis and this is what is observed by the opinions the respondents who agreed unanimously on the lack of interest of decision makers in the upper departments to data presented to them and reflected on the oscillation in the high and low financial statement items.

);> Commercial banks depends on the financial analysis in evaluating their performance, but not significantly, and it turns out that during the financial ratios of the analysis, which showed a large increase in credit facilities as well as deposits

);>Not to take advantage of the courses research and development that are given to employees and this is what has been observed through the extrapolation of the opinions the respondents who agreed unanimously on the existence of such courses and research but not reflected in the financial statements of these banks.

);>Lack of investment incentives for commercial banks, and focus only on investment in deposits and credit facilities.

);>By extrapolation of the opinions the respondents in the commercial banks, it turns out there are Jaws and regulations by regulatory agencies restrict some of the measures that may help commercial banks avoid financial failure.

);>Recent events that happened in Libya, which led to the weak control devices and reflected in rising some budget items to commercial banks and this is what was observed during the analysis of financial ratios.

);>Shortcomings in management performance in spite of the existence of financial analysis departments and staff who are able to conduct financial analysis effectively because of the bureaucracy resulting from the public ownership of commercial banks and its relation to the Central Bank of Libya.

III. Recommendations

In the light of the findings of the researcher from the results of this research, we can draw a number of recommendations may be useful in raising the level of the measurement methods in the evaluation of banks performance and banking sector development which provide financial and economic institutions with modern survival and continue and support economy growth in Libya. The most important of these recommendations based on what was presented by findings by our study of the practical realities of how to do this using financial analysis in performance evaluation and prediction of financial failure in the modem business environment, because it is a great service to commercial banks, which avoids impact in financial problems, include:

);> More attention to development in the technical aspects that help financial analysts at the speed of information access and utilization

);> Give flexibility in the rules and regulations issued and encourage the channeling of funds towards large-returns investments.

);> Giving the Central Bank of Libya more than aut hority of commercial banks as a shortcut for the time, effort, and this may contribute to avoid some of the financial problems and increase efficiency.

);> Show no leniency in the appl ication of international standards when preparing
financial reports and forcing commercial banks to abide by them.

);> Work on the return of investor confidence in the commercial banks by encouraging them to return to financial reports that help them make the right investment decision.

);> Working to solve the financial problems first hand when discovered and not leave it in the file.

);> Forcing commercial banks to more transparency in the issuance of information that will help financial analysts to prepare of financial reports.

);> Investigate the credibility of the financial reporting and zero tolerance in the dissemination of information.

);> Work to take advantage of liquidity and try to invest at home and abroad.

);> Not to cover up the financial irregularities and try to disseminate to the public, as well as easier to punish the wrongdoers.

);> Find investment alternatives and not to focus on certain investments.

);> Trying to benefit from international analysis centers and follow the latest International Publications in the field of financial analysis and send specialists in this field to attend international conferences.

);> Doing more research and studies that contribute to raising the efficiency of
commercial banks and try to benefit from the experiences of others.

IV. Conclusion

In general, the study focused on the measurement methods in the evaluation of banks performance in a Libyan context. It is the first study in Libya which involved three major Libyan banks. The aim of the study was to realise the fitness of applying the measurement methods in the evaluation of banks performance to Sahara Bank, Gumhouria Bank and the Al-Umma Bank and the objectives were to: recognise dimensions of the measurement methods with the strongest impact on the level of the eva) uation of banks performance, try to identify the financial performance assessment of the banks and the indicators used in the criteria, interpretation and knowledge of trends and developments and recent studies in this area, clarify that the indicators and methods in one of the financial and economic institutions have a very important impact in improving the performance and efficiency and develop conceptual framework for the measurement methods in the evaluation of banks performance in a Libyan banking sector context, employs from Arab and Western literature and the findings of the study.

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