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IRSTI 82.17.25

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HUMAN RESOURCE MANAGEMENT USING THE THE EXAMPLE OF KASPI BANK

Abstract. This paper utilizes a unique dataset collected through site visits to extend the analysis of the relationship between the human resource management environment and establishment performance to the service sector, specifically the branch operations of a large bank. Case studies of several branches were used to understand how and why the human resource management environment is likely to affect branch level performance. The branch interviews were instrumental in properly specifying a branch-level performance equation. The econometric analysis showed that, controlling for the characteristics of the market in which the branch is located and the characteristics of the branch employees, as well as unobserved branch-specific and unobserved manager-specific branch characteristics, the human resource

management environment at the branch, as measured by the performance evaluation and feedback system and the quality of communications between the manager and the staff, had a significant effect on the branch's performance. An important finding is that, even though all managers in this bank are given a formal set of human resource policies, they appear to have considerable discretion in their application.

Key words: human resources, management, bank.

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Аңдатпа. Бұл құжат адам ресурстарын басқару ортасы мен қызметтер секторындағы ұйымның қызметін, атап айтқанда, ірі банктің филиалдық операциялары арасындағы қатынасты талдауды кеңейту үшін сайтқа бару барысында жиналған деректердің бірегей жиынтығын пайдаланады. Бірнеше саладағы мысалдар адам ресурстарын басқару ортасы салалық деңгейде өнімділікке қалай әсер етуі мүмкін екенін түсіну үшін пайдаланылды. Филиалмен сұхбат салалық деңгейде өнімділік теңдеуін дұрыс анықтауда маңызды рөл атқарды. Эконометрикалық талдау көрсеткендей, сала орналасқан нарық сипаттамаларын және салалық қызметкерлердің мінездемелерін, сондай-ақ бақыланбаған салалық сипаттамаларын және салалық салалық сипаттамаларды сақтамауды, тиімділік пен кері байланыс жүйесі арқылы өлшенген саланы басқарудың адам ресурстарын басқару ортасын, сондай-ақ менеджер мен қызметкерлер арасындағы қарым-қатынастың сапасы филиалдың жұмысына айтарлықтай әсер етті.

Бұл банктің барлық басшыларына адами ресурстар саласындағы саясаттың ресми жиынтығы берілгеніне қарамастан, олардың қолданылуында елеулі тәртіпке ие екендігі маңызды қорытынды болып табылады.

Кілт сөздер: адамдық ресурстары, басқару, банк.

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Аннотация. В этом документе используется уникальный набор данных, собранный в ходе посещений сайта, чтобы расширить анализ взаимосвязи между средой управления человеческими ресурсами и производительностью организации в секторе услуг, в частности, отраслевыми операциями крупного банка.

Тематические исследования нескольких филиалов использовались для понимания того, как и почему среда управления человеческими ресурсами может повлиять на производительность на уровне филиала. Интервью с филиалом сыграли важную роль в правильном определении уравнения производительности на уровне филиала. Эконометрический анализ показал, что, контролируя характеристики рынка, на котором расположена отрасль, и характеристики сотрудников отрасли, а также

ненаблюдаемые отраслевые характеристики и несоблюдение специфических для филиала характеристик отрасли, среда управления человеческими ресурсами на филиале, измеряемая с помощью системы оценки эффективности и обратной связи, а также качество связи между менеджером и персоналом, оказало значительное влияние на производительность филиала.

Важным выводом является то, что, несмотря на то, что всем руководителям этого банка предоставляется формальный набор политик в области людских ресурсов, они, по-видимому, обладают значительным усмотрением в своем применении.

Ключевые слова: человеческие ресурсы, управление, банк.

Many managers and analysts believe that human resource management can substantially improve corporate performance. But, despite case studies and theoretical analyses of the optimal ways to organize workplaces and manage labor, there is little systematic evidence on the actual impact of these practices on performance. Empirical research on human resource management that does exist tends to focus on blue collar workers in manufacturing despite the fact that most employees work in white collar occupations and service sector industries. Productivity studies on the service sector are particularly rare, partly because of the problems in measuring output in this sector [1].

This paper extends the analysis of the relationship between the human resource management environment and establishment performance to the service sector by examining the branch operations of a large Kazakhstani bank. An unique dataset collected from one company may lead to the criticism that the findings can not be generalized to other work settings, there are two important reasons for focussing on one company in this study. First, since all the branches in this bank are producing the same products using the same production process, it is possible to estimate the impact of the human resource management environment without worrying about the confounding impact of unmeasured attributes of the firm's production process. Previous studies of productivity in the banking industry indicate the importance of getting «inside the black box» [2], which can only be done through detailed analysis at the plant level, i.e. the branch. Second, although this study pertains to only one bank, the Kazakhstani banking industry is dominated by five major banks, so that the analysis presented here is a good representation of the Kazakhstani banking industry as a whole.

This paper should also be viewed as part of the emerging literature on personnel economics recently reviewed by Lazear. As Lazear points out, the availability of firm-based data enables economists to explore new questions and provide answers that can help to guide business policy. The analysis presented in this paper is one example of how an economics framework can be used to study issues relating to the internal operations of a firm.

The literature on productivity in the banking industry has struggled with the question of how to define a bank's output. Berger and Humphrey describe the three alternative methods of defining bank output: the asset, user cost, and value-added approaches. Under the asset approach (also called the intermediation approach), banks are considered as financial intermediaries between liability holders and those who receive bank funds. Loans and other assets are considered to be bank outputs while deposits and other liabilities are treated as inputs. Some examples of studies using this approach are Elyasiani and Mehdian who found that larger banks are more scale efficient and that the banking industry experienced technological progress during the 1980s.

As Berger and Humphrey point out, banks do more than purchase their funds - they provide services to depositors such as the ability to write checks and the ability to withdraw cash, but these services are not counted as output in the asset or intermediation approach. The user cost approach determines whether a financial product is an input or an output on the basis of its net contribution to bank revenue. Using this approach, Hancock found that loans and demand deposits tend to be net revenue earners while time deposits have a positive user cost. Hence, Hancock treated loans and demand deposits as outputs and classified time deposits as inputs along with cash, labor, materials and capital [3].

The third approach, the value-added or production approach, views banks as "producing" demand deposits, time and savings deposits, commercial loans, real estate loans, and installment loans, using capital, labor and materials to do so.It has been argued that this approach is appropriate for studying the cost efficiency of banks since it is concerned with just the operating costs of banking, while the intermediation approach is concerned with the overall costs of banking and is appropriate for addressing questions concerning the economic viability of banks.

An example of an early study that used the production approach is Benston, Hanweck and Humphrey who used the data from the Federal Reserve's Cost Analysis (FCA) program for the time period 1975-1978 to study scale economies in banking. They estimated a translog cost function and argued that output should be measured in terms of what banks do that cause operating expenses to be incurred. Hence, the dependent variable was the sum of all operating expenses other than interest payments for the five primary bank services - demand deposits, time and savings deposits, real estate loans, installment loans, and commercial and industrial loans. Output was defined as either the number of deposit and loan accounts or the dollar value of deposits and loans. In a more recent study, Berger and Humphrey estimated a translog cost function for 14,000 U.S. banks for the years 1980, 1984 and 1988 and defined output as the deflated values of deposit and loan balances. They argued that these real dollar balances are proportionate to the underlying transactions and account maintenance service flows for the deposit categories and the

transactions, credit evaluation, and monitoring service flows for the loan categories, and hence are similar to the outputs used in the BLS measure of bank labor productivity. A third example of the production approach is Prasad and Harker who used data on 47 banks from the 1994 Wharton Financial Institutions Center survey to estimate the impact of information technology on productivity in the industry. A Cobb-Douglas production function was estimated in which the dependent variable was the average annual value of loans and deposits for the bank during the time period 1993-1995.

There have been a number of analyses focussing on branch performance within a single banking firm using either parametric methods or nonparametric methods such as Data Envelopment Analysis (DEA). DEA compares each branch with all of the other branches in the observation set and identifies the relatively more efficient (best practice) subset of branches and the subset of branches that are relatively inefficient. DEA assumes that there is no random error; all variation not in the inputs is treated as reflecting inefficiency. Output is measured as the number of transactions (e.g. new accounts, closed accounts, loan applications, checks cashed, travelers checks sold) processed by the branch and inputs are number of employees, office space, and supplies. As Berger, Leusner and Mingo [4] point out, many studies that use DEA use a small number of observations relative to the number of inputs and outputsand are therefore predisposed to find that most branches are efficient.

The main findings of the studies that use parametric methods is the existence of scale economies at the branch level. This is demonstrated in the work by: (1) Murphy and Orgler who estimated a Cobb-Douglas cost function for one year (1976) on 127 branches of an anonymous bank in a small country; (2) Doukas and Switzer who estimated a translog cost function using one calendar quarter of data (10/31/85 to 1/31/86) on 563 branches of an anonymous Canadian bank, and (3) Zardkoohi and Kolari who estimated a translog cost function using 1988 data on 615 branches of 43 Finnish savings banks. The findings of scale economies is consistent with the idea that a profit-maximizing bank would have branches below cost-efficient scale in order to provide more customer convenience and earn higher revenues.

The best study of branch-level productivity is the one by Berger, Leusner and Mingo who utilized data on 760 branches in a large U.S. commercial bank for the time period 1989-1991.

Their framework relies on the production approach (treating deposits and loans as outputs) because they argue that branches act primarily as producers of depositor services on behalf of the bank, which then invests the funds in loans and other assets. The bank as a whole makes the asset and liability decisions, and branches primarily operate to raise the funds by producing services for depositors. Since branch managers have little control over interest expenses, revenues, or number of transactions required per dollar of deposit, and largely focus on operating expenses, this would argue for using

the production approach rather than the intermediation approach for studies of branch efficiency.The main findings of the Berger, Leusner and Mingo study are that most branches are considerably smaller than efficient scale but the average cost curves are relatively flat.

The previous literature on the banking industry has largely focussed on the role played by scale in determining the efficiency of a bank or a branch. Only two papers have considered other correlates of efficiency but both of these have been at the level of the bank. Delery and Doty conducted a survey of senior human resource executives in U.S. banks in order to obtain information on the human resource policies used by the banks for their loan officers.Utilizing a cross-sectional framework that ignored the role of bank fixed effects, they found a positive correlation between the bank's returns on assets and equity and the existence of profit-sharing and employment security for loan officers, controlling for the size and age of the bank. Berger and Mester [5] lized data from 6000 U.S. bank, market characteristics, and state geographic estrictions on competition on three performance measures: total cost divided by gross assets, net income divided by gross assets, and net income divided by equity. They found that most of the variance in measured efficiency remained unexplained and attributed this to unmeasured factors such as differences in managerial ability; they concluded that the sources of the variation in bank efficiency remain a «black box».

Berger and Mester's findings suggest that managerial ability may play an important role in explaining bank performance. While the ability of the bank's managers at the firm or headquarters level can certainly impact the bank's performance, much of a bank's activities occur at the branch level. In retail banking, customers have idiosyncratic needs and the interactions between these customers and bank employees takes place at the branch level. Hence, the role that the manager might play in motivating employees to successfully fulfill customer needs is best studied at the branch level. No study to date has considered determinants of branch level performance other than branch size.

The Work Environment in Bank Branches. The availability of numerous retail branches coupled with reforms that have allowed banks to expand their product lines has resulted in a very competitive environment in which much attention is paid to opportunities to increase the profitability of retail banking. In addition, technological change has resulted in a major organizational redesign in the Canadian banking industry.

The branch manager is responsible for motivating his or her employees to make productive choices concerning how they spend their time. Existing theories predict that the HRM environments which managers help create at their branches are likely to influence these critical employee decisions in important ways. At the same time, these theories also underscore the complexity of designing a work environment which solves multi-task agency problems. For example, Holmstrom and Milgrom argue that managers will

have to alter an entire set of management practices and procedures simultaneously to achieve the right balance of employee activities.

In order to understand how a branch manager might create a human resource management environment that could impact branch-level performance, I gathered data directly from managers and employees in several branches during the fall of 1995 and the winter of 1996. I asked the bank headquarters to select branches which were perceived as having mediocre HRM environments as well as branches that had model HRM environments. One day was spent in each branch meeting first with the manager and then individually with five or six employees in different positions (e.g. tellers, personal banking officers, customer service representatives, accounting clerks, etc.). These interviews proved to be an invaluable component of the research agenda as they provided me with specific examples of how managers could motivate their employees and influence the branch's performance. In this section, I describe the findings from three of these day-long visits; I selected these three because they provide interesting contrasts of managerial styles and human resource management environments.

Branch #1.When I visited this branch in January 2016, the manager had been at the branch for almost two years. The manager indicated that although he felt the branch's performance had improved compared to its performance under his predecessor, the branch was not at potential yet. He complained that although he tried to motivate his employees with in-branch contests, the employees were generally apathetic. Many of the employees had been with the branch for more than ten years and there was a history of conflict that was interfering with performance.

Although some employees felt the new manager was doing a good job, the interviews with the employees generally confirmed much of what the manager discussed and blamed him for the unsatisfactory work environment and the mediocre performance of the branch. Specifically, they complained about the process of receiving feedback and the reward and recognition system. For example, at least two of the employees complained about the manager's tendency to give negative feedback in front of customers and his encouraging employees to «snitch» about other employees' behaviors. Some of them also complained that the manager did not provide real recognition of employees who performed well. There was a general sense that the employees were not cooperating with each other; for example, one employee recalled that there recently was a long line and only one teller was working, but no one bothered to pitch in.

Branch #2.When I visited this branch in January 2016, the manager had been there for only three months. Prior to his joining this branch, he worked in headquarters. Just before the manager's arrival, this branch had been identified as the worst performing branch in its region in terms of the growth of deposits. Upon his arrival, the new manager convened a meeting and asked employees

"what do you need to do your job easier or better? The first request was from the head teller for a calculator. Several employees were sharing calculators because previous management said there was no budget to purchase equipment. In addition to providing the calculators, the new manager used his budget to purchase coffee and donuts for the employees. He said that his intent was to keep the staff motivated and happy and, to that end, he set up an open door policy.

The interviews with the employees painted a picture of very happy employees who were cognizant of the manager's efforts to improve the work environment. They commented extensively about the quality of communications among co-workers and with the manager himself. They felt they were getting much better information from this manager compared to the previous one. In particular, the employees felt they had a much clearer understanding of what the manager expected of them and how their performance was evaluated. All of the employees commented how cooperation among workers had improved and that they had fun working at this branch now. Another area of improvement was the reward and recognition system. One teller discussed how, under the previous manager, she worked through her lunch hour to generate a referral for a mortgage and she received no recognition. The current manager used «time off» as an informal reward and the employees were grateful for this.

Branch #3.When I visited this branch in November 2015, the manager had been with the branch for almost two years. Headquarters selected this branch because they felt this manager was a model to which other managers should aspire. The manager described how she held regular staff meetings to teach her employees about new products and how to sell them. She also held contests with small monetary prizes to motivate her employees. Finally, I witnessed that she was truly a hands-on manager. While I was in the branch, she rarely sat in her office; instead, she was at the tellers' platform, either assisting the tellers with questions or actually pitching in as a teller when the lines got long.

The employees in the branch loved their manager. They commented positively about the weekly staff meetings; as one employee put it, «we now know what is going on in all departments». The staff meetings were described as having a party atmosphere; one employee told me that the manager used games to teach them about the new products and that sometimes employees danced at the meetings. Communications among employees and between the staff and the manager were described as excellent. «You can talk to her (the manager) ...she's one of us», commented one employee. «She's always there for you. She'll be a teller if there are long lines». The employees also felt that the manager recognized when they did a good job and rewarded them (even if it was only a gift certificate or a half- day off).

Implications of Interview Findings for Empirical Analysis of Branch Performance. These interviews indicated that although all branch managers are given a formal set of human resource policies by headquarters, they appear to have discretion in their application of these policies and can thereby influence the performance of their branch. This implies that an empirical analysis of the determinants of branch performance needs to include a measure of the human resource management environment at the branch.Specifically, the interviews indicate that three attributes of that environment are likely to be important factors in explaining branch performance: the nature of communications between co-workers and between the employees and the manager, performance evaluation and feedback, and the extent to which managers provide recognition of their employees' contributions. Employees in branch #1 were unhappy with the quality of communications in the branch and felt that their contributions were not recognized. Employees in branch #2 and branch #3 commented favorably about performance feedback, reward and recognition, and the nature of communications at their branches. In the next section, the specification of the branch performance equation is guided by the previous literature on bank productivity as well as the findings from these interviews.

Defining Branch Output

Beginning in the summer of 2015, I met with numerous branch managers and financial and accounting managers at the bank headquarters in order to identify the best measure of a branch's output. There was general agreement that, in the new sales-oriented environment, branches are evaluated based on their sales of products. In other words, a good branch is one that shows growth of deposits and loans. A branch that experiences high growth rates in deposits and loans will report high spread income, where spread income equals the spread times the value of the deposits and loans as shown on the branch's balance sheet. Spread income is the largest component of a branch's income; the other components are: (1) liability fees such as fees from stop payments, bounced checks, low balances, wire transfers, etc.; (2) asset fees such as fees from loan applications, loan processing, and late payments; (3) transactional fees such as fees for travelers' checks, safe deposit boxes, and ATM transactions.

In effect, these managers were agreeing with Berger, Leusner and Mingo and others [6] who argue that the production approach is preferrred to the intermediation approach for studies of relative efficiency of branches within a particular bank. According to these managers, their job is to use labor and capital to «produce» deposits and loans, but unlike the specification in the standard production approach, the output of a branch is best measured by its net sales of the deposit and loan products.

Interviews with managers and employees at various branches clarified the process by which branches make sales. Specifically, the observed sales of a

branch during time period t is a function of the amount of contact the staff has with customers and the probability that a given interaction with a customer leads to a sale. Customer contact depends on the volume of customer traffic at the branch as well as the number of calls (personal and/or telephone) that personal bankers make to existing and potential customers. The probability of a sale given contact depends on the characteristics of the customer (e.g. wealth, age) as well as the ability of the branch employee to make a sale. The latter in turn is dependent on the employees' experience at the branch (more branch-specific experience leads to stronger relationships with customers) as well as their product knowledge, sales training and motivation. The branch interviews suggest that the branch manager plays a key role in educating staff about products to sell, teaching them how to sell and motivating them to sell through reward and recognition. Hence, sales are a function of the characteristics of the neighborhood in which the branch is located and the individuals who live there, the personal characteristics of the branch employees, and the human resource management- related activities (training, motivating, communicating, recognizing, providing feedback) of the branch manager. To incorporate these ideas, the following branch-level sales equation is specified:

$$Log(SALES_{it})=\$_0 +\$_1 MKT_{it} +\$_2 L_{it} +\$_3 HRM_{it} +YEAR+b_i +m_j +:_t \quad (1)$$

where $SALES_{it}$ is annual net sales of deposit and loan products in branch i at time period t, MKT_{it} is a vector of characteristics describing the neighborhood in which the branch is located, L_{it} is a vector of employee characteristics, HRM_{it} is a vector describing the human resource management environment at the branch and YEAR is a vector of time dummies that measure time-varying effects that are common to branches. Since the dataset provides manager identities, I am able to include two fixed effects in equation (1); the first, b_i , is a branch fixed effect and the second, m_j , is a manager fixed effect. This specification allows for the existence of permanent, unmeasured branch characteristics that may affect performance, as well as permanent, unmeasured characteristics of individual managers that may be correlated with performance. The random, unobserved error component is denoted as $:_t$. Table-1 reports summary statistics for dependent and independent variables for the 2015, 2016 and 2017 fiscal years.

The average annual rate of growth of deposits ranged from 9 to 12 percent while the average annual rate of growth of loans ranged from 5 to 19 percent. Although branches are on average around 34 years old, the average tenure of branch managers is approximately four years. Indeed, among branches observed in both 2015 and 2017, only 57 percent have the same manager in both years. Average tenure (at the branch) of branch employees is about four and one-half years and the average employee (excluding the manager) has around thirteen years of education.

Empirical research on the relationship between human resource management practices and establishment performance has focussed on blue collar workers in manufacturing despite the fact that most employees work in white collar occupations and service sector industries. This paper extends the analysis of this relationship to the service sector by examining the retail branch operations of a large Kazakhstani bank. A unique dataset collected through site visits was used to estimate the determinants of branch-level performance and specifically to consider if the human resource management environment at a branch is one of those determinants. Previous studies of branch performance have largely focussed on the role played by scale in determining the efficiency of a bank branch despite the fact that most of the variance in measured efficiency remained unexplained in those studies.

Interviews with managers and employees were used to guide the specification of the branch - level production function and the empirical definition of the branch's human resource management environment. The econometric analysis showed that, controlling for the characteristics of the market in which the branch is located and the characteristics of the branch employees, as well as unobserved branch-specific and manager-specific characteristics, the human resource management environment at the branch, as measured by the quality of the performance feedback system and the quality of communications between the manager and the staff, had significant effects on the branch's performance, especially its sales of loans. A one standard deviation improvement in those attributes of the human resource management environment that had significant effects corresponded to an increase in the growth of deposits and loans that was equivalent to 16-26 percent of the average annual growth rates.

An important finding from this study is that, even though all managers in this bank are given a formal set of human resource policies, they appear to have considerable discretion in their application. Evidence from the branch visits showed that some managers took actions that created real differences in the extent to which recognition of employee contributions, performance feedback and information sharing were characteristic of their branches, and the econometric analysis demonstrated that these HRM practices significantly impacted performance.

The fact that the HRM variables remained significant even when manager dummy variables were included in the regressions indicates that the results are not due to unobserved personality characteristics of particular managers. Rather, the evidence in this paper supports the notion that branch-level performance in the banking industry can be improved if managers undertake specific human resource management-related actions.

Table 1

Top-10 Kazakhstan universities represented in the international rating Webometrics

	Fiscal Year 15		Fiscal Year 16		Fiscal Year 17	
	Mean	Std Dev	Mean	Std Dev	Mean	Std Dev
Annual Growth Rate of Deposits	.12	.14	.10	.11	.09	.11
Annual Growth Rate of Loans	.19	.18	.10	.09	.05	.10
Average Dwelling Value	192433	64046	183155	58133	192733	64117
Total Population	45001	34874	46409	34886	46228	34396
Proportion with Post-Second Education	.50	.10	.49	.10	.51	.10
HH Turnover Rate	.06	.02	.06	.02	.06	.02
Affluent	.03	.18	.03	.18	.03	.16
Empty Nesters	.13	.34	.14	.35	.13	.34
Ethnic	.06	.24	.10	.30	.07	.25
Low	.06	.24	0	0	.06	.24
Middle	.17	.38	.19	.40	.18	.38
Upscale	.28	.45	.27	.45	.30	.46
Work	.09	.29	.11	.32	.09	.29
Located in Mall	.08	.27	.16	.37	.11	.31
Age(in years)	34.49	25.09	35.97	24.79	36.64	25.16
Manager's Tenure in Branch	4.03	3.56	4.28	3.72	4.34	3.61
Number of Full Time Employees	9.87	5.26	11.35	5.70	10.36	4.95
Number of Part Time Employees	8.36	5.89	9.86	5.64	8.55	5.10
Average Education (Employees)	12.71	.56	12.83	.55	13.01	.54
Average Tenure (Employees)	4.57	2.31	4.44	2.20	4.42	2.13
Share of Employees with Top Ratings	.05	.06	.05	.07	.05	.07
N	150		63		146	

Note - based on the data of the university website [7].

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IRSTI 82.33.17

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EFFECTIVE MANAGEMENT OF THE FREQUENT FLYER PROGRAM AS A TOOL OF INCREASING COMPETITIVENESS

Abstract. The article deals with the problem of increasing the efficiency of managing the Frequent Flyer Programs for Kazakhstan airlines in the market. The main effectiveness indicators of Frequent Flyer Programs are determined, a comparative analysis of these indicators is presented in comparison with the leading airlines of the world, an analysis of the main groups of costs and benefits obtained by the airline from the introduction and use of Frequent Flyer Programs with the purpose of developing appropriate control actions is carried out.

The particular relevance of the research objective arises from the intensification of competition in the airline industry and the extensive consolidation that is expected to accompany it. These market challenges make the retention of valuable customers an essential prerequisite for the achievement of a sustainable competitive advantage and, hence, the airline's overall success.