vestments in physical assets, with some firms being relatively asset intensive, and others being very asset light. These firms or companies also exhibit diverse trends in asset intensity.

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The impact of credit risk management on the banking profitability: A Survey of the Theoretical and Empirical Literature

Abstract: Banks as financial intermediation institutions are defined as businesses that receive and manage various risks. Among numerous banking risks, credit risk is identified by most researchers as the greatest risk affecting the performance of the bank. On the other hand, banking sector profitability has received great attention in recent years. The purpose of this paper is to recognize us with theoretical and empirical literature about the relationship that exists between credit management risk and banking profitability indicators. The most studies in this field have concluded that credit risk management is the primary contributor on the profitability of commercial banks. But there are and those studies that have proved that the impact of credit risk management on banking profitability is negligible.

Keywords: credit risk management, banking profitability, indicators of profitability, indicators of management credit risk

1. Review of theoretical literature

1.1. Risk management in banks

The management of bank risks is the most important factor for financial stability and economic growth in the developed economies, Ferguson [1]. Van Gestel and Baesens [2] say that an appropriate procedure for risk management is the identification of risk, risk measurement and then developing strategies to manage risk. According to Adeusi at al [3], risk management issues in the banking sector have not significant impact only in the performance of the bank, but also in national economic growth and in the development of the business climate. Credit risk is considered as greater risk from all other risks affecting in the financial performance of a bank. Gieseche [4] said that the credit risk is the most important risk that are facing banks, where their success depends on accurate measurement and efficient management of this risk, in a greater extent than any other risk. Lopez [5] expressed that the credit risk is the risk of reducing of the value of the loan due to a change in the ability of borrowers to perform payment.

Chen and Pan [6] said that the credit risk is the degree of volatility of the value of debt instruments or their derivatives due to changes in the credit quality of borrowers and parties related to them. Hosna at al [7], stated that the credit risk is the most important risk that are facing commercial banks due to his connection with possible losses. According to Charles [8], risk management is essential for the survival of a bank and this enables the management to allocate resources for the risk units based on a compromise between risk and potential return. Banks that are primarily exposed to credit risk, result in the reduction of their profitability. Shelagh Heffernan [9] expressed that five main ways that a bank can minimize credit risk are: accurate determination of the price of credit, credit limits, the use of collateral, diversification of credit and “Securitisation” and/or the use of credit derivatives. Sinkey [10] singled out what he calls “Five C” to be used in a qualitative assessment of credit risk:

1. Character: A borrower is ready to repay the loan?
2. Cash flow: Has borrower reasonable liquidity?
3. **Capital:** What assets or equity has the borrower?

4. **Collateral:** Is it possible that the borrower to put collateral?

5. **Conditions:** How is the state of the economy? How strong will be the borrower in case of an economic recession?

### 1.2. The profitability of commercial banks

The profitability ratios used to measure how well a business is functioning in terms of profit. In other words, profitability ratios serve to measure the success of the firm. Chin’anga [11] defines profitability reports as financial measurements assessing the capacity of a business to produce income against expenditure and business costs during a certain period of time. These reports are considered basic financial reports of banking institutions. Ruziqa [12] says, when a bank will increase and maximize its profit, it should increase the risk or reduce its operating cost. Koch and MacDonald [13] argued that bank profitability generally is related so directly with riskiness of the bank’s portfolio and its operations. As a result of this, banks in order to increase their return, need to know which are risk factors that have the greatest impact on profitability, which ultimately will increase the bank’s financial performance. Guru et al [14] express that the determinants of profitability of commercial banks can be grouped into two categories: **domestic determinants** — are determinants that are controllable by management and **external determinants** — are determinants which are out of the control of management. We have seen some similar studies that use ROE and ROA as indicators of banking profitability.

### 2. Review of empirical literature

The profitability of the banking sector has received attention always greatly in recent years. Nowadays there is a vast empirical literature which has examined the relationship between credit risk management and bank profitability. Most studies in this field have concluded that the management of credit risk is a major contributor on the profitability of commercial banks. But there are and studies who have proved that the impact of credit risk management on bank profitability is negligible. In this section of the paper we will make a summary of empirical studies that are committed by different researchers in different countries and will mention results that have emerged from each study.

### 2.1. Empirical studies in relation to the impact of credit risk management on banking profitability

There are numerous empirical studies about the impact of credit risk management in banking profitability and how can the effective management of credit risk to help to reduce the probability of failure and to limit the uncertainty to achieve the required level of bank profitability. Most of these studies support the idea that have impact of credit risk management in banking profitability but there are also studies that have issued conflicting results. Berger and DeYoung [15] surprisingly find a strong positive connection between capital adequacy ratio and profitability of banks in USA during the 1980s, but he found that the relationship should be negative in certain situations. In another study Kosmidou et al [16], also found similar results for commercial banks in the UK during the period 2000–2005.

In an another study Ruziqa [17] investigated the joint effect of credit risk and liquidity risk in the profitability of the largest Indonesian banks and reveals the negative effect of credit risk and the positive effect of liquidity risk in profitability.

Felix and Claudine [18] investigated relationship between bank performance and credit risk management. Their findings concluded that return on equity and return on assets, two indicators used to measure profitability, were negatively correlated with the ratio of non-performing loans to total loans of financial institutions, leading to a decline in profitability.

Hosna at al [19] in their study showed that credit risk management impact on profitability in the four banks involved in the study. Among the two indicators taken as proxy of credit risk management, they found that NPLR has a more significant effect than CAR on the indicator of profitability ROE. Analysis of each bank that was taken in study showed that the impact of credit risk management in profitability is not the same.

Funso et al [20] in their study found that a growing 100% in nonperforming loans reduces profitability (ROA) about 6.2%. An increase of 100% in provisions for loan losses also reduces profitability by about 0.65%, while an increase 100% in total loans and advances increases profitability by about 9.6%

S. Kodithuwakku [21] in his study found that 1% increase in NPL reduce ROA with 13.7587% and 1% increase in provision for loan losses reduce ROA with 1.0139%. Also, 1% increase in loan provisions/NPL reduce ROA with 0.0792%. The regression results also showed that loan provisions/total assets of banks is positively correlated significantly with ROA. The model revealed 1% increase in the provisions for loan losses increase ROA with 0.1035%. Found results confirmed the objective of the study that a better
management of credit risk brings a better banking performance.

Fan Li and Yijun Zou [22] showed that credit risk management has positive effects on the profitability of commercial banks. Among the two representatives of credit risk management, NPLR has a significant impact on two indicators, ROE and ROA. However, during the period under study, relations between all representatives were not consistent but flexible.

Gizaw et al [23] found that nonperforming loans, provisions for loan losses and capital adequacy have a significant impact on the profitability of commercial banks in Ethiopia. Loans to deposits ratio have not significant impact on bank profitability.

3. Conclusions of the review of theoretical and empirical literature

Banks as financial intermediation institutions are defined as businesses that receive and manage various risks. Banking risk management is the most important factor for financial stability and economic growth in developed economies. The main causes of serious banking problems are directly related to poor standards of lending to borrowers. The increase in the credit risk will increase the marginal cost of debt and equity which translates rising costs of funds for the bank. Profitability is the main concern of banks. Profitability ratios serve to measure the success of the bank. Reports of bank’s profitability, higher or the same compared with previous periods also show that the bank is doing well. Most of these studies support the idea that has impact of credit risk management on banking profitability but there are also studies that have issued conflicting results. Empirical analysis helped us to get acquainted with the most useful indicators of credit risk management and banking profitability indicators. All empirical studies that we saw about this topic, have used as a model for data analysis model of multiple linear regression, where they received as dependent variables banking profitability indicators and as independent variables indicators of credit risk management. Most empirical studies of the above have concluded that has a strong and stable relationship between credit risk management and bank profitability. But there are and studies that claim the opposite.

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Corporate form of business organization: features and problems of functioning

Abstract: The article describes the features and benefits of the corporate form of business organization. The main factors hampering the development of the corporate form of business organization in Russia.

Keywords: corporation, business, share ownership.

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Корпоративная форма организации бизнеса: особенности и проблемы функционирования

Аннотация: В статье рассмотрены особенности и преимущества корпоративной формы организации бизнеса. Выявлены основные факторы, сдерживающие развитие корпоративной формы организации бизнеса в России.