

## Article

# Methodological Approaches to Assessing Financial Performance of The Public Catering Enterprises by Banks

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**Abstract:** The financial sustainability of catering enterprises is crucial in tourism-driven economies, where such services operate under unique financial and operational models. Despite their importance, banks face methodological challenges when assessing the financial performance of catering establishments due to limited transparency in assets, risks, and capital structures. Existing approaches fail to adequately capture the peculiarities of the catering sector, particularly in remote or rapidly evolving service environments. This study aims to propose a more nuanced methodology that banks can apply to evaluate the financial condition of catering enterprises effectively. The analysis highlights key evaluation indicators including return on assets (ROA), equity adequacy, net worth, loan portfolio quality, and liquidity measures. It also emphasizes the impact of balance sheet manipulation and data insufficiency on credit assessments. A multi-tiered framework is suggested involving internal and remote assessments, combined with economic modeling to evaluate asset quality and capital costs, along with managerial efficiency and market positioning. This framework can improve credit risk evaluation and support the financial stability of catering enterprises, thereby benefiting banks, the wider economy, and society through enhanced service delivery and informed lending decisions.

**Keywords:** Banking Business, Financial Condition, Counterparties, Internal Audit, Balance Sheet, Reporting Distortion, Manipulation, Evaluation Indicator, Rate Of Return On Assets, Profitability Of Banking Services, Loan Servicing, Office, Net Capital

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## 1. Introduction

It is important to assess the financial success of catering enterprises before providing the additional financial resources. As this sector differs from the other sectors a unique methodology is needed for assessing their financial performance. Based on the literature review, and conducted research analysis within the framework of the topic of this article, an attempt is made to determine not only the analytical indicators necessary for use in the analysis of both banks and catering enterprises, but also mechanisms for assessing priority indicators, such as: assessment of asset quality, assessment of the cost of capital, assessment of the quality of management, etc[1].

A proposal is made on the need to use a classification according to the levels of risk that both a catering establishment and its servicing bank may be exposed to[2].

## Literature Review

Conducted literature review reveals that certain approach is required for identifying financial performance of this sector. According to the previous studies, the high failure

rate of catering companies is one of the reasons why underdeveloped countries' companies are not meeting the legal goals set forth by the national government. Numerous tenable reasons have been cited to support the current regime. Economic reasons were cited by Cassar as the most probable factor. These factors include, but are not limited to, high interest rates, stringent government regulations, taxation rates, high inflation rates, volatile market conditions, crime, and a lack of real-time business information, business knowledge, and business skills[3]. It makes sense that every commercial entity would be vulnerable to shifts in the economic state, which are mostly determined by economic variables. However, compared to their larger counterparts, smaller enterprises will be more susceptible to these developments. This is particularly true given that small and medium-sized enterprises lack robust and advanced infrastructures[4]. Literature showed that financial reports, different indicators such as ROE and ROA, and industry-specific indicators such as table turnover ratio, average cost per customer, labor cost are the most significant indicators for assessing financial success of the companies in the food industry.

## **2. Materials and Methods**

Both quantitative and qualitative research methods have been implemented for this research. Past papers have been analyzed and some important calculations have been made based on the financial reports of some companies of this sector[5].

This research adopts a mixed-methods approach, incorporating both qualitative and quantitative techniques to evaluate the financial performance assessment methodologies used by banks for public catering enterprises. The primary data was gathered through an in-depth analysis of financial statements from selected catering companies, focusing on key indicators such as return on assets (ROA), equity levels, loan portfolio security, capital adequacy, and liquidity ratios. Additionally, qualitative insights were obtained from a comprehensive literature review, which provided contextual understanding of the specific challenges faced by catering businesses in accessing credit. The study relied on document analysis of banks' reporting practices and public financial disclosures to identify common trends and discrepancies in financial evaluation. Emphasis was placed on assessing the practical applicability of traditional financial tools in the unique operational environment of catering enterprises, particularly in the context of their dynamic cash flow patterns and dependence on consumer behavior. Methodological tools included analytical modeling to determine asset quality and capital costs, alongside comparative performance benchmarking against average market indicators. Information was also drawn from regulatory and industry guidelines, including classifications by risk levels and credit limit frameworks used by banks. The findings were triangulated to validate the effectiveness of current assessment practices and to propose a refined methodological framework that integrates both financial data and sector-specific considerations. This approach enabled a comprehensive understanding of how banks can better support the financial stability and growth of catering enterprises through more accurate and adaptive assessment methods[6].

## **3. Results and Discussion**

The importance of the problem of assessing the financial condition of catering enterprises by banks is of great importance. Because in the conditions of innovative development in tourist cities, catering enterprises began to develop on a large scale. Catering enterprises operate in all areas and serve visitors as potential customers. Catering enterprises serve their customers even at home, such a service is also provided through Internet service - for products of catering enterprises. And the enterprises themselves, unlike other service sectors, are engaged in production and servicing their customers around the clock. They began to serve their customers not only on the ground, in the broad sense of the word, but also serve them underground, in the air, in space, at sea, etc. They have become breakthrough entities, which is difficult to compare them with other service

sectors, with the exception of certain service segments of tourism enterprises. Therefore, in order to expand the scope of its own production, a catering enterprise requires financial resources, and in this matter, banking services are of great importance[7].

The banking system is of great importance in ensuring the functioning of catering establishments. The financial system, the state, and society as a whole benefit from banking services to catering establishments. The peculiarity of the banking business of services is based on the use of a significant volume of attracted resources - almost up to 90% of the balance currency. Any bank has a significant number of counterparties. There are significant financial flows between banks, especially large and medium-sized ones, passing through correspondent accounts. This enables them to serve clients more synchronously. It is the banks that serve catering establishments that cannot be on the verge of bankruptcy. First of all, they are created conditions that can not cause the so-called "domino" effect, which is realized in the chain of non-payments[8].

Information support plays an important role in customer service, and the latter is the main form of their reporting[9].

Depending on access to information, the assessment of a bank client can be insider, conducted by the bank's in-house analysts with full information on the structure and quality of the bank's clients' assets and liabilities, or outsider (remote analysis), conducted by third-party experts, usually based on monthly balance sheets. In accordance with this, a distinction is made between intra-bank and remote analysis. The most accessible forms are the following: balance sheet for second-order accounts, profit and loss statement, calculation of economic standards, issue prospectuses, quarterly reports on the issue of securities. Almost all information is contained on the bank's website in the "resource consumer directory" section. In the process of analysis, all available information about the bank is used, including information from the press, in addition, various information from rating and consulting companies can be used[10].

*The main methodological problems of assessing the financial condition of public catering enterprises by banks.*

An insignificant problem of assessment is the limited information on assets, risks and real capital. It is fundamentally impossible to give a detailed remote assessment of the quality of assets based on created reserves, since the latter requires a detailed internal audit. Unfortunately, the balance sheet stores outdated information - assets are recorded at their original cost[11].

A more significant problem in terms of its scale is the distortions in balance sheets, introduced not only for the purpose of concealing problem assets, but also "embellishing" the balance sheet in order to improve economic standards, and overstating general indicators in the interests of attracting credit resources (capital, balance sheet currency, liquidity, client balances)[12].

It follows that in the process of analyzing the financial condition of the client in the context of the subject under consideration, it is recommended to use the following analytical forms:

- a. The form of an analytical balance sheet – aggregated balance sheets of varying degrees of detail, bringing the diversity of balance sheet accounts to the main groups of assets and liabilities of food service enterprises;
- b. The dynamics of the main performance indicators of catering establishments – customer base, loans, investments, interbank transactions, capital are considered as a separate additional analytical form, at least for the last year;
- c. Analytical table (main analytical indicators)[13].

### *Problems of misreporting.*

The balance sheet and capital (at least in the context of a developing innovative economy) in their original form do not fully allow for an adequate assessment of the reliability of borrowers in general, and in particular, public catering.

The assessment of the quality of loans may be of little representation, since some of the non-performing loans may be hidden in the accounts of employees and other assets, for example, by extending the terms, reflecting them in long-term loans, or reissuing accountable documents[14].

Capital overstatement is based on the use of "credit" schemes, due to which the contributed resources are returned back to the bank. The balance currency can be increased due to mutual interbank loans, balances on correspondent accounts, inter-branch settlements. With the help of certain manipulations, it is possible to "inflate" the client base and assets (loans). Particular attention should be paid to the study of reporting balances - quarterly and annual.

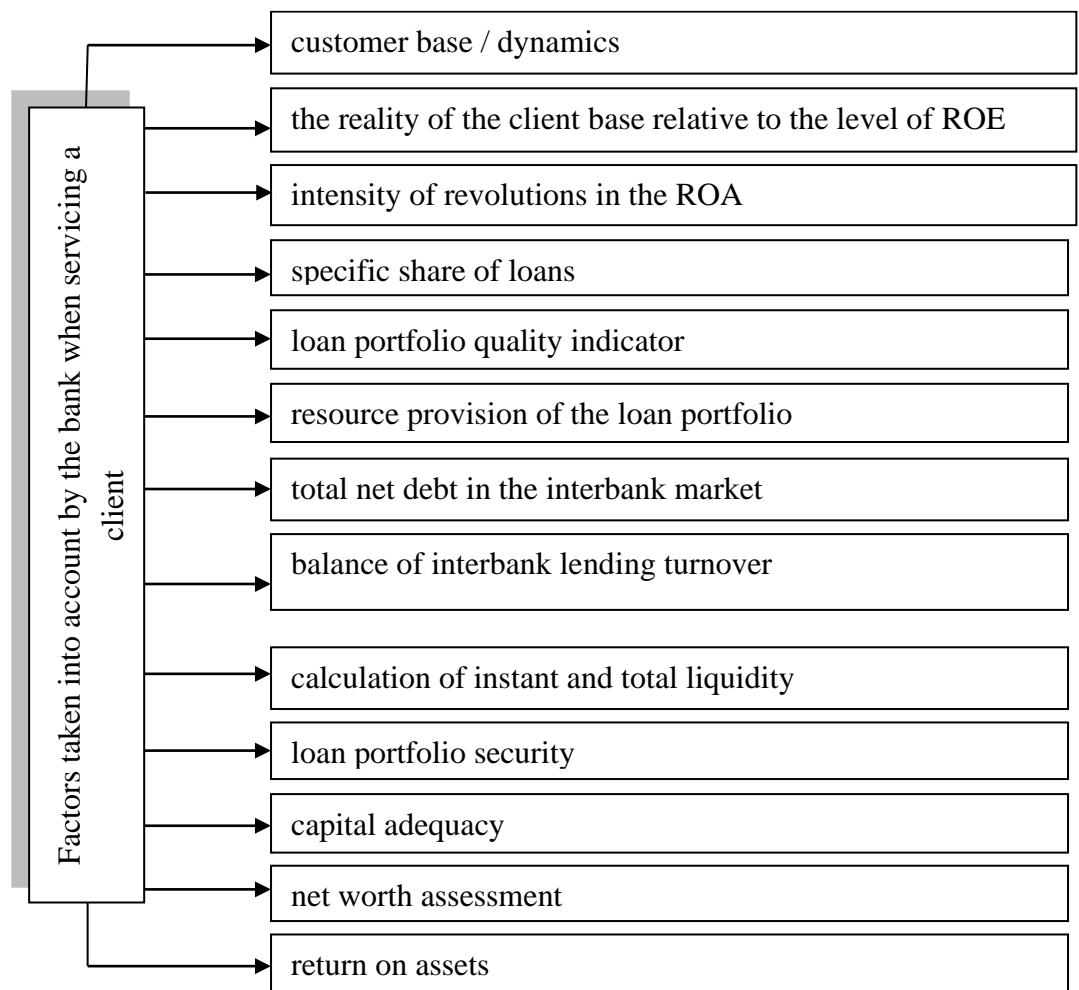
### *The bank's position in the markets for customer service.*

Although the bank is largely closed to the client, its positions in the money markets - corporate, retail and interbank - allow us to track the bank's assessment by clients quite clearly. No matter how the bank decorates its balance sheet, its internal content and real financial condition, ultimately expressed in the position in the markets, are practically impossible to hide.

The size of the client base, in particular catering establishments, in relative and absolute terms, as well as its dynamics, is a very important indicator, since it represents a free indicator of the bank's assessment by clients of catering establishments.

To enter the catering services market, the bank servicing them must have a good balance and an impeccable image, because catering establishments constantly need cash. Because not all services can be provided using plastic cards. This is also due to the fact that catering establishments buy products needed for cooking at the collective farm market. In the old days, small catering establishments, especially those located in rural areas, had the right to leave up to 15% of one-day revenue in their own cash register. These are small catering establishments, as for large catering establishments serving up to 1,000 people a day, it is certainly required to leave up to 40% of one-day revenue to buy the necessary agricultural products at the collective farm market[15].

In case of a sharp deterioration of the financial situation, as a rule, blank (unsecured by collateral) limits are closed, which causes difficulties in maintaining liquidity due to the purchase of agricultural products. Any negative information about the agricultural market can also have negative consequences. The main analytical indicators used in the analysis of the financial condition of public catering enterprises, assessed by the bank, should take into account such moments that can affect their activities, see Figure 1.



**Figure 1.** Factors taken into account by the bank when providing services clients from catering establishments.

In practice, one may encounter other evaluation indicators that may have a significant impact on their activities. For example:

***First. Asset quality assessment – economic model.***

It can be assumed that if the bank's assets are placed effectively (they do not contain problematic investments and schemes), the average estimate of their profitability should tend to the average market level for the same type of assets for the same period. If the actual rate of return on assets is significantly lower than the average market level, then this type of asset is subject to discounting.

***Second. Assessment of the cost of capital.***

Here the main emphasis is placed on defining net capital as the difference between equity capital and the total risk of the bank's assets, taking into account the probability of economic losses (accumulated and expected) for the relevant types of banking services operations.

***Thirdly, this is about assessing the quality of management.***

It is quite important to assess the overall competitiveness of a bank providing loans to catering establishments, which consists of the following components: assessment of the quality of service provided to customers of a catering establishment, competitiveness of services and tariffs, level of interest rates on loans and deposits, and presentability of the office.

When assessing a bank and its client, it is advisable to hold a meeting of clients with representatives of the bank applying for a limit - to get acquainted, if possible, with one of

the representatives of the board, the head of the Treasury, the head of the analytical service, to assess the quality of the office and the possibility of obtaining a general visual representation of the analyzed bank and client in each specific case. This is important for assessing their more qualitative indicators.

*Fourth, this is identifying the methodology for setting limits.*

To facilitate the ranking of banks, it is recommended to use qualification by risk levels. Credit limit (CL) - often in foreign countries the sign " LC " ( *credit limit* ) - is a function of the characteristics of the counterparty bank - the amount of net assets *Anet* , net debt on the interbank market *FBnet* , client base, net capital *Chet* , as well as the credit risk standard (maximum limit) of the creditor bank. However, the maximum limit is limited by the donor bank's own capabilities both due to restrictions related to the amount of capital and assets (maximum risk per borrower), and due to considerations related to the bank's strategy in this market. In the process of preparing for decision-making, a brief description of the results of the financial analysis of the bank and its client is written, constituting a credit dossier on the bank.

#### 4. Conclusion

It can be said based on the analyzed literature and conducted research results that the banking system is of great importance in ensuring the functioning of catering establishments. The financial system, the state, and society as a whole benefit from banking services to catering establishments. The peculiarity of the banking business of services is based on the use of a significant volume of attracted resources. Although the bank is largely closed to the client, its positions in the money markets - corporate, retail and interbank - allow us to track the bank's assessment by clients quite clearly. No matter how the bank decorates its balance sheet, its internal content and real financial condition, ultimately expressed in the position in the markets, are practically impossible to hide.

The size of the client base, in particular catering establishments, in relative and absolute terms, as well as its dynamics, is a very important indicator, since it represents a free indicator of the bank's assessment by clients of catering establishments.

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