Analysis of Competitive Advantage of Banks in Ghana

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Abstract: Similar to a variety of notions of competitive advantage researchers examine competitive advantage from different perspectives. It has been a buzz term for more than two decades with a plethora of definitions [1]. The term competitive advantage gained popularity because of the study of Michael Porter. Three major research streams of competitive advantage which cover both internal and external attributes of a firm exist. They are the activity position view, resource based view and relational view. The banking sector has seen the arrival of many banks from the sub-region as it is the policy of the Central Bank to issue licenses to international banks with repute. The traditional core business of commercial banks in Ghana is retail and corporate banking. As retail and corporate banking become less and less profitable, banks are diversifying into new businesses to stop the decline of profits.

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I. Introduction

Competitive advantage is probably one of the most popular concepts of strategic management today and it is at the heart of any strategy. It is a common theme in management but despite its prominence in both academia and industry in the past years the concept still remains vague [2]. There are three common different research streams on competitive advantage. These research streams exhibit differences in assumptions, units of analysis and strategic implications. Each of the research streams focuses on and explains only part of the story.

Michael Porters view on competitive advantage also known as activity position view is of the research streams. Based on the activity-position view, an organization’s competitive advantage is determined by how it successfully develops a set of activities to support its strategic positioning in the industry structure.[3]. In particular, Porter (1996) emphasizes that competitive advantage resides in business activities and activity systems, rather than firm resources. These are cost advantage or differentiation or focus. Whereas Barney with his resource based view explains that for a firm to have competitive advantage the firms source of competitive advantage should have the following qualities of value, rarity, inimitability/non substitutability and organization by emphasizing the crucial role of organizing in the generation of competitive advantage. He posits that a firm’s competitive advantage arise from the resources a firm has. Dyer and Singh ’s relational view also explain that the source of a firms competitive advantage is by the relationship a firm has with other competitors in the industry. 

Achieving competitive advantage requires a firm to make a choice about the type of competitive advantage. Durable competitive advantage is the sustainable factor(s) that protect a company’s earning power from competitors. Companies with durable competitive advantage consistently deliver outstanding growth, profits and returns for their owners and remain ahead of its competitors. It is important to note that a company’s durable competitive advantage can be constantly challenged by existing and new competitors, as well as by structural shifts within industries. A company’s success can also be challenged by entering into new or unknown markets where it currently does not have a durable competitive advantage. These types of issues and scenarios can decrease a company’s long-term growth, profits and returns.

The banking sector in Ghana comprises thirty (30) deposit money banks (DMBs) and 137 rural banks. Currently all banks in Ghana are operating as Universal Banks which opens endless opportunities to the product range that they may offer. The banking sector has seen the arrival of many banks from the sub-region as it is the policy of the Central Bank to issue licenses to international banks with repute. The policy is geared toward supporting the development of a well-capitalized and robust financial system [4].The traditional core business of commercial banks in Ghana has been retail and corporate banking. As retail and corporate banking become less and less profitable, banks are diversifying into new businesses to stop the decline of profits. Sources of competitive advantage

1.1 Sources of competitive advantage for banks in Ghana include:

1. Brand: A strong brand can create a source of durable competitive advantage if it increases a customer’s desire to purchase a service and provides pricing power. Any bank that has the capacity to quickly respond
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to customers need and provide subsequent support will have a competitive advantage over competitors. Banks also continue to invest in their brands to maintain competitive advantage through differentiation.

2. Intellectual Property: Intellectual property (IP) can create a durable competitive advantage if a bank consistently provides innovative services. IP generally consists of copyrights, patents and trademarks, which provide exclusive rights.

3. Distribution and Accessibility: how widely distributed banks branches and business points are can be a source of durable competitive advantage. A well distributed branch without accessibility will not lead to durable competitive advantage.

4. Management: Management can create a durable competitive advantage with an innovative vision. A business management team is essential to harnessing opportunities that create the needed competitive advantage. However, without an innovative vision, management does not create a sustainable durable competitive advantage.

5. Networking: Networking can create a durable competitive advantage if the value of a product or service increases with the number of users. The more users that leverage the network, the greater its value. Durable competitive advantage is often created by closed networks that exchange information and knowledge.

6. Strong research and development capabilities: A business can gain a strong competitive advantage in its industry if it has strong research and development capabilities. Strong research and development reflects in the company’s product development processes. Companies with strong research capabilities often lead the market with innovation. A process can create a durable competitive advantage if its innovations cannot be duplicated by competitors. A company’s successful process, which is unknown by competitors, can require a long period of time to duplicate.

7. Regulation: Regulation can create a durable competitive advantage if the barrier to enter a specific market is high because business approval is difficult to receive from the government. However, regulation can be a double-edge sword. Governments can control pricing through regulation (utilities) or they can leave it to the market. The best-case-scenario is for companies to need regulatory approval to operate within a specific market, but not be subjected to economic oversight in regards to pricing products or services.

8. Switching Costs: Switching costs can create a durable competitive advantage if they are high. Switching occurs when the benefit of changing from Company A to Company B is less than the cost.

9. Superior Skills: The ability of a business to do more or better (or both) than its competitors – superior skills are the distinctive capabilities of personnel that set them apart from those of competing firms. If a bank has superior skills that enable it with superior database management and data processing capabilities the firm will more likely than not achieve durable competitive advantage. A company that demonstrates the capacity to process data speedily will have a competitive advantage over other firms with lower processing capacity. Being innovative and creative is the responsibility of the whole workforce and allows learning organisations to adapt to changes in the state of the market, technology and competition efficiently. This adaptation to the dynamic nature of business environment, keeps a firm in the forefront thus a source of competitive advantage. Superior skills and superior resources lead to positional advantage, superior customer value and lower relative cost.

10. Strong marketing strategy: In the market place, the company with the best marketing strategy wins. No doubts about it. The competition to gain a stronger competitive advantage in the marketplace is the reason why giant corporations spend millions of dollars on marketing research and advertising annually.

1.2 Effects of sources of competitive advantage

For a firm to be able to maintain its competitive advantage the source it uses to achieve that competitive advantage must as well be durable. Some of the sources of competitive advantage for banks in Ghana can be durable. As much as the brand can serve as a source of competitive advantage for banks other new entrants can copy the brand identity of the banks as long as is not intellectual property. The regulations for entry of new banks in Ghana today allow for international banks with already established presence in other parts of the world to launch their products into our country making the banking industry about one of the most competitive ones. While strong management can increase a company’s performance, certain industries are more competitive than others. The characteristics of the specific industry have a greater impact on durable competitive advantage than management. Distribution and accessibility is a source of competitive advantage since there is still a high percentage of unbanked Ghanaians even in urban areas. That is the competitive advantage the foremost bank in Ghana GCB bank has over other industry leaders in Ghana. It is worth noting that the bank has more branches in rural and peri urban areas than all banks in Ghana today. In Ghana today, the new banks that have emerged have been able to brand themselves as customer oriented banks. With this it has succeeded in getting most youths to bank with them but their limiting factor has to do with their inability to open branches in areas except the urban centres. Currently most banks are technologically oriented with introduction of more internet based services being introduced. This has therefore made that kind of service not
to look more of a competitive advantage than it was years ago. In investment banking industry, it is very difficult to create strong barriers on imitation as new product features are available to rivals through over the counter and internal process, pricing & risk modeling, systems, structure can be easily identified by human resource acquisition. However, an investment bank which is a first mover in terms of optimizing process, innovation of pricing & risk models, development or enhancement of market leading IT platform always will have a more sustained competitive advantage for a longer period irrespective of imitation.

II. Conclusion

Banks need to explore their environment for them to remain competitive. As much as protection of competitive advantages is important, there is need to also exploit new emerging opportunities that come along for the firm to remain competitive over a long period of time. GCB Bank though still competitive changed its approach in banking as a result of entry of new banks in the industry. Its brand name remains its competitive advantage and it is the actions of competitors that have made it to improve its services. The biggest challenge for banks in Ghana today is that new banks are always in the forefront in launching new technologies. As much as the old banks can remain committed to their core competencies, there is need to as well change direction and foresee changes in technology and the environment.

Sustainability of a competitive advantage does not mean that it will last forever but instead it implies that it will not be lost through duplication efforts of others. Since competitive advantage do have a life cycle, it is important to have a well-planned selection and allocation of resources and also to evolve your competitive advantage through its life cycle.

References