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Analysis of Sustainable Sources of Competitive Advantage for Growth in the Botswana Commercial Banking Sector

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Abstract:

The commercial banking business environment in Botswana has been uniquely stable for decades. The industry is rapidly changing and is now characterized by intense competition for the bankable population of approximately 1.1 million.

The Botswana large commercial established banking sector is experiencing a declining market share. This study sought to determine the current drivers and the basis of the commercial banking sector's competitive strategy and propose intervention measures that can guarantee survival in the continuously declining market share.

The study revealed that the sector rely mainly on high quality customer services to achieve a competitive advantage. Technology, new entrants and changing customer needs stimulate competition in this sector and also restrict the growth of market share. The large commercial banks should continuously scan the customer landscape; adopt a quick consultative response strategy and use improvements in IT to develop new markets to safeguard their market share and overall performance.

Keywords: Banking, management, market share, growth, competition

1. Introduction and Rationale of the Study

Many industries all over the world, including the banking industry, are experiencing highly competitive markets that present a multitude of business challenges. Botswana's commercial Banking industry is no exception. In this highly competitive business environment, survival demands that an organization improves its performance through a well-planned and deliberate choice of strategy (Awuah, 2011) or its market position will be eroded and be forced to exit the market.

Botswana's commercial banking sector has grown significantly since 1990. In the past, the commercial banking sector was comparatively small, only dominated by large and well established commercial banks (Barclays and Standard Chartered Banks). These banks had limited competition between themselves. Today, these banks are no longer dominating the commercial banking sector. Since 1990, the banking industry has witnessed a number of new market entrants into Botswana's commercial banking industry. These new entrants include: First National Bank, Bank of Baroda, Capital Bank, Bank Gaborone and Bank ABC just to mention a few. Currently, there are 12 commercial banks in Botswana and they are all wrestling for the same market share and profits within Botswana's commercial banking market, demographically defined by a mere 2.155 million people (Central Statistics Office, 2013).

The number of commercial banks in Botswana has been on the rise for the last 13 years, creating extreme fears that the commercial banking sector could be heading for an unprecedented saturation. When the Bank of India (Botswana) Ltd (BOI) and State Bank of India (Botswana) Ltd (SBI), were granted licenses to transact banking business effective July 29th2013 (Basile, 2013), the number of commercial banks in the country increased from 10 to 12. The infiltrations of new and more competitive commercial banks have escalated the competitive rivalry in the banking industry, inadvertently threatening the market share of the already existing commercial banks (Newel, 2013).

According to Jefferis and Tabecha (2010) in the late 1980s, Barclays and Standard chartered the only large and established commercial banks at the time, accounted for over 95% of total banking assets. As a result of new entrants, by the end of 2007 they accounted for only around 50% of banking sector assets, loans and deposits, representing a 45% decrease. Over the years, First National Bank has overtaken these two banks as the largest bank in Botswana with P9 billion market capitalizations (Botswana Banking Supervision Report, 2012a). Major micro lenders such as Letshego Financial Services Ltd and Blue Ltd have also emerged over the years making further claims on the market share in the Banking industry.

The resultant intensified competition has driven customers to adopt a fickle behavior, migrating from one bank to another searching for new best deals. This takes place as some of the customers view banking services as a mere commodity, further exacerbating this fickle behaviour. Persistence in this migration has led to a drastic decline in the market share of the large and longest established commercial banks in Botswana. Should the current continuing decline in market share continues unabated (Figure 1), profitability of these traditionally large and established banks is likely to be worrisome, resulting in employee retrenchments/layoffs or even branch closures. The main question is therefore: what can these entities do to survive in this dynamic and highly competitive sector in order to sustain their competitive advantage?

2. Analysis of the Botswana Commercial Banking Industry

2.1. Rivalry among Established Banks

The intensity of rivalry between and among firms within an industry is evident when companies in an industry battle gain market share from each other (Gabriel, 2006a). This rivalry increases and consequently the competition becomes more intense with an increase in the number of commercial banks in the industry as they jostle for a significant market share. There are 12 commercial banks, registered in Botswana and 7 of these were registered between 2006 and 2013 (9 years), representing 58% of the total registered commercial banks. This is a significant increase in the number of banks offering apparently similar products and they are all fighting to capture and retain a market share that will lead to more than above average profits. The Bank of Botswana (2012b) has witnessed the market share of the industry total assets, total loans and advances, and total deposits for the smaller and recently established banks grow at the expense of the market share of 'the four large private and well established commercial banks. This situation has created increased competition between the small and the large established banks (Figure 1).

2.2. Threat Posed by New Banks

Gabriel (2006b), Foley and Jayawardhena (2000) collectively argues that the possibility of new firms entering the industry affects competition and makes it difficult for the already existing firms to protect their market share and continue to be profitable. The cost of entry into the commercial banking sector is low, licensing regulations are way too flexible, profits seem very promising and the risk seems manageable and as a result new players have been entering the Botswana commercial banking scene. Insurance companies, retailing firms and stockbroking firms are also making significant inroads into what has been known as traditional banking markets due to the low barriers of entry associated with the industry. These potential competitors have created significant threats to the existing established large banks.

2.3. Bargaining Power of Customers

Legislations have significantly increased customers' rights (Shah & Siddiqui, 2006) while technology and competition on the other hand, are responsible for increased choices of products and services. Increased volumes of available information on the Internet and changes in social behaviour have reduced the loyalty of customers. Ernst and Young (2011) also argued that increased competition reduces the loyalty of customers to their main banks and are more likely to try new banks which offer better rates, superior technology, or more attractive rewards. Customers in Botswana therefore, have more power posing a serious threat to commercial banks.

2.4. Threat of Substitutes

Even though there are some products and services that can only be obtained from fully-fledged commercial banks, most products and services offered by banks are replaceable and can easily be substituted. Telecommunications companies in Botswana have introduced services similar to banks' where customers can make payments and transfer money at the comfort of their homes. There are alternative lenders like Letshego Financial Services who seem to provide better terms posing a serious threat to the already established large commercial banks.

2.5. Bargaining Power of Suppliers

Suppliers are more powerful if they are few and in the absence of substitutes for the goods they offer and if they can potentially undertake the value-added process of the organization (Lynch, 2009). Commercial banks are highly dependent on Bank of Botswana certificates for assets and income. Bank of Botswana is therefore a powerful supplier and a sincere and serious threat to the already established commercial banks.

3. Botswana Banking Industry External Factors

3.1. Political

Since 1989, a number of reforms and liberalization measures have been formulated and adopted. These liberalization initiatives have increased competition in the banking industry (Jefferies & Tabecha, 2010b). The specific initiatives include; a) Licensing of more commercial banks aimed at increasing competition and efficiency in the banking sector (Ahmed 2006); b) A relaxed bank licensing regime that has led to the establishment of new banks and also increased competition (Bank of Botswana Banking Supervision Annual Report, 2010). The Botswana commercial banks need to transform their current business models to comply with the ever changing regulatory environment if they hope to survive and remain competitive.

3.2. *Economy*

The banking industry plays a crucial role in the economy of a country as a critical driver for the development of other sectors (Bagorogoza et. al., 2013). The banking sector in Botswana has been growing more significantly than the economy as a whole. The sector grew in real terms by 9.7% every year between 1993/94 and 2005/06, while overall GDP averaged 6.9% a year during the same period (Jefferis 2010). This growth is evidently shown by the total increase in performance by the small banks (Figure 1).

3.3. *Social*

Working environmental dynamics resulting from competition have also influenced the behavior of customers in the banking industry (Foley & Jayawardhena, (2000); Durkin and Howcraft (2003). Customers have become overly sophisticated in their needs and wants. These changes in customer behaviour and demographics have become a critical strategic challenge that banks in Botswana must overcome for their survival.

3.4. *Technology*

Advances in information technology and telecommunications will continue to have a major impact in the banking industry (Gupta, Czernik & Sharma, 2000). These advances in technology have helped banks, but at the same time increased non-bank competition by lowering production and distribution costs for all financial institutions. Commercial banks are now fighting with non-banking institutions like brokerage firms, investment companies, and insurance companies.

Commercial banks in Botswana are being persuaded to seek greater productivity and efficiency improvements so as to sustain profitability and the desired competitive advantage

4. **Characteristics of Botswana's Commercial Banking Sector**

Formulating a formidable business strategy requires an organization to generate a series of strategic alternatives to pursue in recognition of the organization's internal strengths and weaknesses and also its potential external opportunities and threats. Competitive advantage can be built on the company's strengths and rectifying weaknesses that exist while exploiting available opportunities and reducing the impact of likely threats within the external environment. Table 1 illustrates the Strengths and Weaknesses, Opportunities and threats associated within the commercial banking industry in Botswana. The weaknesses associated with the Botswana banking sector pose a major concern.

5. **Study Approach**

Both deductive and inductive approaches were found appropriate for the study. Existing theories and models were used to evaluate the current business environment of the Botswana commercial banking industry. These theories and models were then used to explore/test the current basis of commercial banking sector competitive advantage. Some aspects of inductive approach were important as data was collected to establish the nature of competition among banks in order to ascertain how Botswana commercial banking sector entities can sustain its competitive advantage (Saunders, et al. 2012a).

5.1. *Research Design/Strategy*

A mixed design involving a survey and archival documents was adopted for the study. This was necessary in order to determine the customers' perceptions of the Botswana commercial banking sector and also to enrich the understanding of the research context. This design highlighted the constraints restricting commercial banking sector from growing market share and to propose strategies and solutions for established entities within the industry to increase and defend their market share.

5.2. *Research Methods, Data Collection and Analysis*

A cross-sectional data was collected from respondents at the commercial banks. This included six (6) managers (Marketing Managers and Business Development Managers) and two hundred (200) customers. The study used purposeful and random sampling techniques to obtain respondents from a population of 24 managers and 600000 commercial bank customers, due to the limitations associated with the study (Saunders, et al. 2012a). Banking industry annual reports and Bank of Botswana Statistics Reports that covers all the commercial banks in Botswana were also used in this study. The reports analysis provided the forces that shape competition in the commercial banking industry in Botswana, while the 200 customers provided insights to customers' perceptions on criteria for selecting a bank.

The study employed, semi-structured questionnaires to collect both quantitative and qualitative data from the management while close-ended questionnaires were used to collect data from customers. The qualitative data was subjected to thematic analysis that arose and was developed during the analysis while quantitative data was subjected to statistical analysis and producing frequency tables and charts (Saunders, et al., 2012b).

6. **Factors Influencing Competition**

The factors that shape competition in the commercial banking industry were determined from the literature and a Likert scale was applied in the research questionnaire. The aim was to identify the factor(s) that most influenced competitiveness in the Botswana commercial banking sector. Five variables had an average mean of more than 3.8, while only two variables have a mean of less than 3.8 (Figure 3). The results demonstrated that technological changes, new entrants and changing customer service needs have an extreme influence on competition in the commercial banking industry in Botswana. This is consistent with the findings of Gupta,

Czernik and Sharma (2001); Foley and Jayawardhena (2000), who observed that technology greatly, increased competition between banks as well as non-bank institutions as they compete for profitable customers.

The Botswana commercial banking industry must strategically respond to these threats in order to remain competitive. High profit margins in the industry and competitive pricing of products were identified as the least influencer of competition with a mean below average.

Each commercial banking entity must strategize against these threats, establish a competitive advantage to safeguard its current position and improve performance

6.1. Strategic Competitive Alternatives

The commercial banking industry management was further asked to *rank* the strategic competitive factors identified in the banks' 2012 annual reports. The rankings (Table 2) demonstrate that most entities emphasize on high quality of customer service, extensive branch network, employee satisfaction and good ICT infrastructure. Conversely, most bank management responds to competition by emphasizing on the;

- Provision of exceptional customer services
- Innovation
- Provision of high quality products
- Cheapest service charges
- Employee satisfaction
- Extensive branch network, for example, covering both urban and rural areas.

The management of the commercial banking industry's response to competition seems to follow the identified strategic competitive factors as identified in the 2012 annual report. However, the response falls short of what studies have identified as critical competitive factors in the commercial banking industry in Botswana (Table 4). The critical factors identified and not emphasized by the entities in the sector are technological changes and threat of new entrants into the banking sector.

6.2. Customer Attraction and Loyalty towards a Commercial Bank

The study sought the opinion of customers on the critical aspects that attract customers towards the services of a specific commercial bank. The results are tabulated in Tables 5 and 6.

The majority of the respondents was attracted to the particular bank because of the quality of service (24%) followed by brand awareness (22%) and the fact that the entity happens to be the employer's bank (18%). High quality customer service cannot be holistically achieved without embracing a robust technology, an area that the bank management seems not to be emphasizing. The respondents' 'quality of service' was particularly in relation to a bank's ambience and human capital interface.

The study revealed that the majority of customers continued to utilize the services of a bank of their choice based on the available excellent products and customer service (30%) and a good branch experience (28%). The recently introduced 'motsheloaccount' for group savers by one of the banks is an example of a good product. Conversely, competitive interest rates (12%) did not give customers a good enough reason to continue dealing with the bank, while high operating fees makes the bank lose its customers to competition since low fee rates (Table 5 and 6) are not a source of customer attraction. This observation is not surprising since most Botswana people are generally not into the culture of causing strategic savings and frequent small sum withdrawals are of common occurrence.

6.3. Growth Constraints of a Commercial Banking Entity

The study also sought to establish from the management, what is perceived as the major stumbling blocks against an entity's increase and maintenance of market share. The inability lay in three variables; technological changes, changing customer needs, and new entrants into the industry (Table 4). These variables have a high impact (mean greater than 4.8) on the growth and maintenance of the market share within the Botswana commercial banking industry. However, the Botswana commercial bank management is currently emphasizing on changing customer needs as their basis of attaining a sustainable competitive advantage in growing their market share. This is explainable since management has the ability to anticipate and have a limited influence on customer needs and wants. Technological changes, which is a key competitive factor in the banking industry as identified by management entities in this sector and supported by studies carried out by Gupta et al. (2001), Degryse (2005) De Young et al. (2007) and Wilson et al. (2009), seem to have been perceived not critical. The management equally remains silent on the response to the effects of the continued new commercial bank and non-bank entrants into the Botswana commercial banking sector. However, this is an exogenous factor requiring a consultative approach with Botswana's commercial bank sector regulator (Bank of Botswana).

7. Limitation of the Study

Commercial banks have a policy of not divulging and discussing competitive strategies and other information considered 'sensitive' and therefore, vital information may have been withheld.

The customer study sample was considerably small (200) compared to the 860000 banked population (Jefferis and Tacheba, 2010) within Botswana and the opinions expressed leading to the conclusions may not fully be representative of the entire population.

8. Conclusion and Recommendation

The study concludes that;

- The major driving force behind cut-throat competition in the Botswana commercial banking sector is information and communication technology (generally referred to simply as technology). Technology has increased the knowledge base of customers and created convenient and unconventional banking practices that have proved to be a source of a major competitive edge for banks in the commercial banking sector. This has therefore, compelled most banks to meticulously invest in technology to avoid eroding their customer base.
- Botswana's relaxed licensing regulations have a profound impact on the entry and establishment of new banks and non-bank commercial institutions. These new entrants have particularly become a source of very strong, innovative products and are seriously challenging the dominance of the four large traditional banks in Botswana. These new banks and non-bank commercial institutions are therefore likely to continue restricting the growth of market share for the large established commercial banks. This is unlikely to change soon, considering the Bank of Botswana's Herfindahl-Hirschman Index (HHI) on a 5 year period, indicating a decline from 0.21 (2009) to 0.18 in 2013. This demonstrates that the Botswana commercial banking sector competitiveness is improving. Increased competition is viewed by the Bank of Botswana as a source of better products and services within the commercial banking industry.
- Customers are now exposed to better knowledge about the commercial banking industry and possess more bargaining powers. They are increasingly demanding continuous improvements from these commercial banks and lack of the same, is likely to increase customer attrition.
- The banking sector is highly dependent on a focus strategy (high quality customer service) for a competitive advantage. This strategy has so far contributed some positive results towards the banks' performance. The strategy has attracted and retained a large number of customers. However, in the medium to long term this scenario is unlikely to be observable in light of the competitive challenges to the market share growth attributed to the new entrants.

It is recommended that;

8.1. Technology

Even though continuous technology improvements with the associated hefty investments act as a threat to sustainable business performance in the commercial banking sector, it equally presents a base for growth opportunities. The sector should therefore consider increasing its investment portfolio in technology. This decision will; a) Improve the efficiency of the bank; b) Increase the bank's capacity to be creative and provide new products and customer services; c) Refocus on the huge unsecured lending dominated by the non-bank institutions; d) Reduce operating and transaction costs; and consequently e) Boost its competitive advantage and profitability.

8.2. Changing Customer Needs

The highly competitive environment has influenced the behaviour of customers. Customers' expectations from the large established commercial banks have been raised substantially. The banks should understand these customer expectations and incorporate them in their business strategies in order to exceed expected customer service delivery levels. Customer attraction through 'apostleship', acquisition and retention will be improved, resulting in increased capacity to manage risk and exploit available market opportunities (Botswana's 57% population is unbanked) for sustainable growth.

8.3. The Threat of New Entrants and Substitutes

Entry of new banks and non-bank institutions in the commercial banking sector in Botswana will continue to be a threat to the market share and performance of the large banks. This is attributable to Botswana being ranked number one in Africa on the anti-corruption index (US Foreign Commercial Service and Department of State, 2012). The banks should, therefore, invest more in research and development. This will assist the large banks in crafting new, unique and excellent innovations and marketing strategies that will not easily be competitor imitable.

Leveraging on first mover advantage and economies of scale, the large established banks should utilize the strong base and provide a sustainable competitive advantage on the interest rates and prices of products offered by the new entrants.

8.4. Restoring Reputation

Customers for the commercial banking sector are highly sensitive. Any established commercial banks' controversy in relation to emergence of audit gaps, whenever it occurs, should be immediately met with a more than equal force to restore reputation and investor confidence

9. Figures and Tables

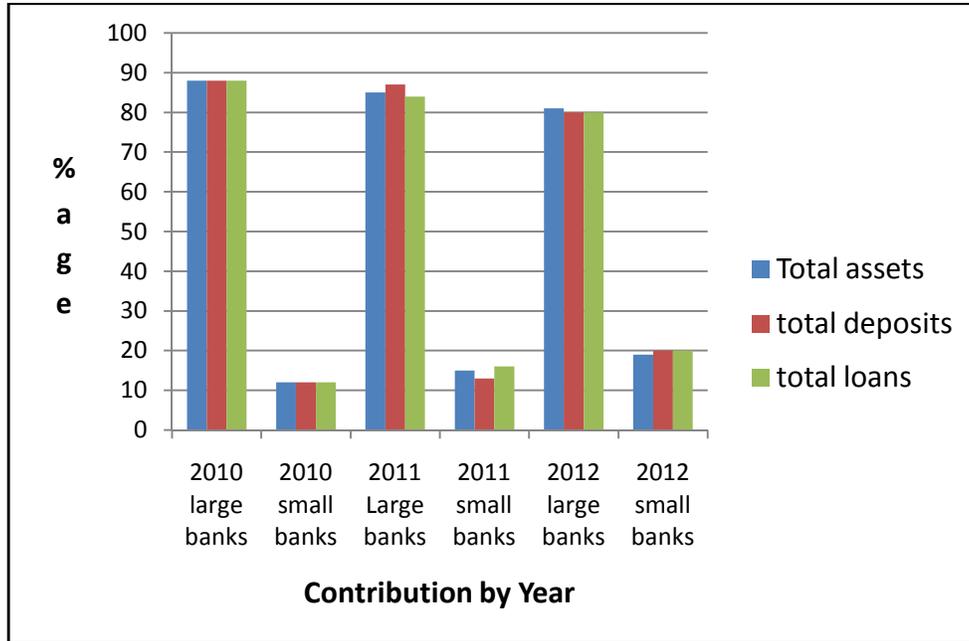


Figure 1: Private Banks, Market Share of Total Assets, deposits and Total Loans
 Source: Bank of Botswana Supervision Annual Report (2012)

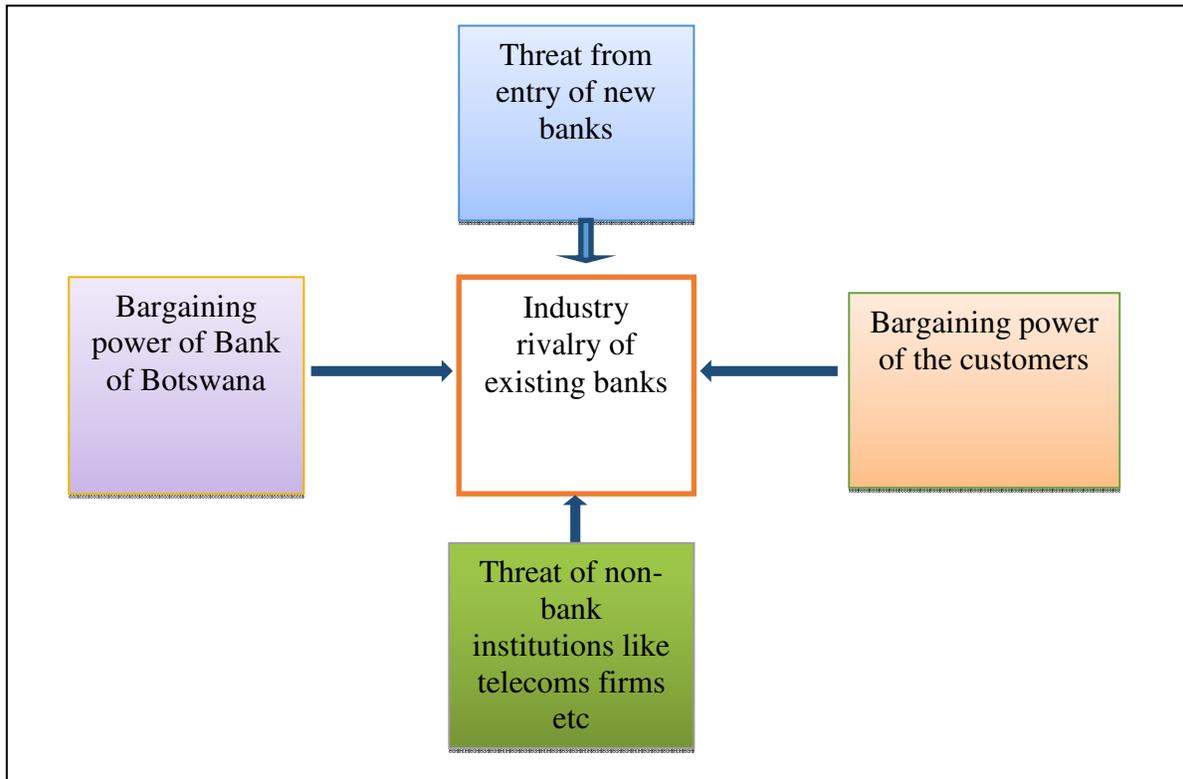


Figure 2: Forces Shaping Competition in Botswana Commercial Banking Industry
 Source: An adaption from Porter (1998)

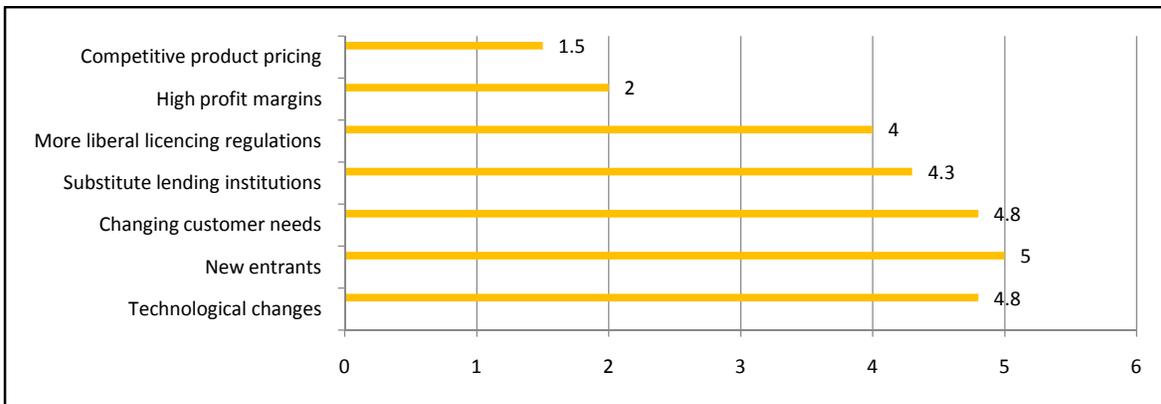


Figure 3: Factors influencing competition
 Legend: 5 = very influential, 4 = influential, 3 = somewhat influential, 2 = slightly influential and 1 = not influential at all.

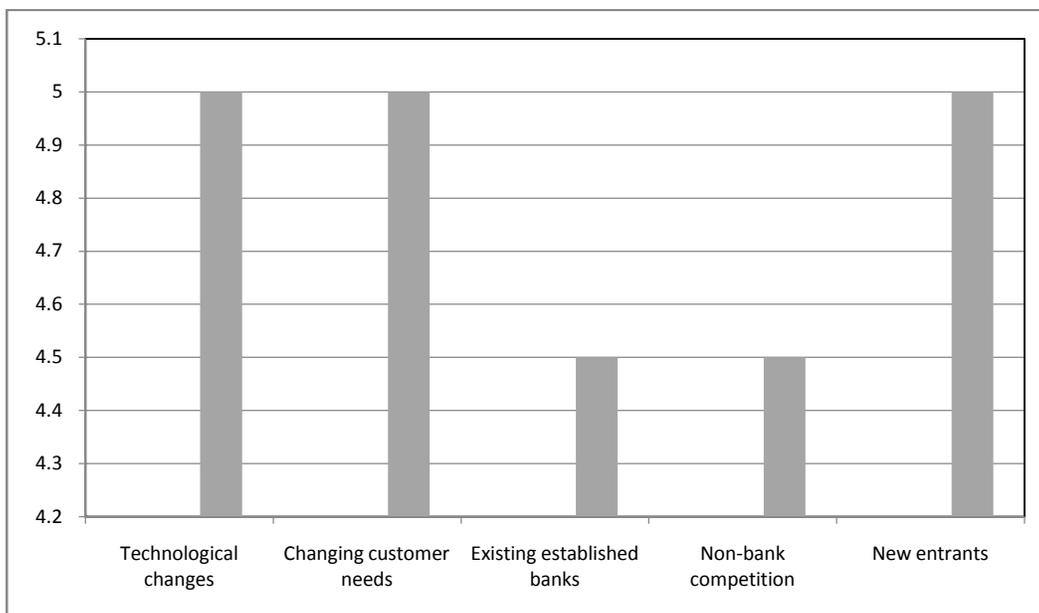


Figure 4: Commercial Bank Entity Market Share Growth Constraints
 Legend: 1=No effect, 2= Minor effect, 3=Neutral, 4=Moderate effect, 5=Major effect

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> A number of well established large commercial banking entities some more than 50 years. Ability to introduce new products for example, Motshelo Account, which pioneered the recognition of group savers. Most of the large established banks have won various recognition awards for various good performances 	<ul style="list-style-type: none"> High employee turnover especially management High bank charges that are inconsistent with quality of service considering long month-end ques. Generally slow to adopt new technologies Long periods in financial transactions (cheque clearance takes 3-4 days) High reliance on urbanized salaried people Lack of experience in mining and risks associated with diamonds. Sensitive customer perceptions in situations of negative publication emanating from any negative bank publicity elsewhere.

OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> Available improved technology to improve efficiency. 57% unbanked Botswana population (Jefferis and Tacheba, 2010) and commercial banks can reach out to them Ability to provide new products and services (innovation) Opportunity to venture into mining 	<ul style="list-style-type: none"> Any occurrence of economic and financial crisis Increasing competition Increasing sophistication of customers Relocation of State Bank of India and Bank of India to Botswana and injection of capital into diamond manufacturing businesses. Low interest rates that inherently reduce earnings and profitability

Table 1: The SWOT Analysis for the Botswana Banking Industry

	Participants						Mean
	1	2	3	4	5	6	
Fair bank charges	2	1	1	2	1	2	9/6=1.5
Employee satisfaction	4	4	3	3	4	3	21/6=3.5
High quality customer service	4	5	5	5	5	5	29/6=5
Good ICT infrastructure	3	4	3	4	3	4	21/6=3.5
Extensive branch network	4	4	3	5	4	4	24/6=4
Legend: 5 = extremely important, 4 = very important, 3 = moderately important, 2 = slightly important and 1 = insignificantly important							

Table 2: Commercial Bank Entities' Key Strategies

	Frequency	Percent	Cumulative Percent
Quality of service	48	24	24
Brand awareness	44	22	46
Employers bank	72	18	64
Corporate social responsibility	12	6	70
Recommendations	32	16	86
Low rates	4	2	88
Other	24	12	100
Total	200	100	

Table 3: Customer Attraction to a Commercial Banking Entity

	Frequency	Percent	Cumulative Percent
Satisfaction with fees	12	6	6
Good branch experience	56	28	34
Good/competitive interest rates	24	12	46
Excellent products and services	60	30	76
Other	48	24	100
Total	200	100	

Table 4: Customer Loyalty towards a Commercial Banking Entity

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