

The Role of Strategy in a Competitive Business Environment: A Case Study of Ecobank Ghana Limited

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ABSTRACT: *The financial systems in Ghana tend to evolve around the banking system. The banking sector is experiencing increased competitions in the new deregulated market. Competition in the banking sector matters for a number of reasons. Operating in the competitive banking environment is very challenging. Formulating a consistent strategy is an intricacy for many management teams, making that strategy work is even more complex. The aim of this study is to examine the role of strategy in competitive business environment. A case study research design was adopted for easy assessment of the role of strategy in a competitive environment. Ecobank Ghana Limited, the Pan African bank was adopted for the case study area. Both primary and secondary source data was used with a sample size of 320 respondents. Convenient sampling technique was used to collect data from Management of Ecobank. The study therefore found that the competitive strategies of Ecobank Ghana are effective and that the strategies have contributed to high financial performance of the bank. The impact of competitive strategies on the performance of the bank are increasing sales volume; profit efficiency, increase productivity, increase in ROE, businesses and sustainable growth increased market share, enhanced customer service and increased of customer waiver of charges. The study recommends that the bank should work hard to build and sustain its competitive advantage and be prepared for the next wave of market reforms and restructuring by applying new methods of information technology and upgrading the skills of staff and management.*

KEYWORDS: *Strategy, Competitive Business Environment*

I. INTRODUCTION

The financial systems in Ghana tend to evolve around the banking system. As the main financial intermediary, financial institutions such as banks ensure mobilization of savings from diverse sources and allocate the savings to

more productive activities, benefiting not only investors and beneficiaries of the investments but the economy at large (Gulde 2006) [4]. An efficient banking system enables lower transaction cost and help bring together both the suppliers and borrowers of funds to transact business at minimal or no cost. Indeed, a banking system which efficiently channels financial resources to productive use is a powerful mechanism for economic growth (Levine, 1997) [6].

In order to ensure the continuous improvements, efficiency performance, and higher productivity of the banks and the banking sector, there is the need for financial sector reforms within the banking industry to regulate both banking. In line with this for instance, Bank of Ghana implemented several policies/measures over the last decades. Notable examples include: The financial liberalization and institutional reforms initiated by the International Monetary Fund (IMF) (Mathieson & Roldo, 2001) [15] and World Bank (Demirguc-Kunt 2004) [15] which resulted into the implementation of the Economic Recovery Programme (ERP) in April 1983, with the aim of liberalizing the economy from controls in order to enhance productivity in the economy. The Financial Sector Adjustment Programme (FINSAP) in 1988, which was aimed at addressing the weaknesses in the banking industry, restructuring the public sector banks in 1989, the Universalism of the banking sector, the Increase in banking minimum paid-up capital, and the opening up the banking sector to foreign banks. These measures and policies implemented were aimed at liberalizing the banking sector to allow for competitions within the sector.

The banking sector is experiencing increased competitions in the new deregulated market. Competition in the banking sector matters for a number of reasons. As in other industries, the degree of competition in the banking sector matters for the efficiency of production of

financial services, the quality of financial products and the degree of innovation in the sector. In this regard banks have to recognise their competitive strategy in order to have a competitive edge and secure their position in the market (Naoum 2001) [9]. Therefore, strategy needs to play an important role in order for the banks to gain competitive advantage in the market. It is against this background that this study is being conducted on the role of strategy in a competitive business environment using Ecobank Ghana Limited as a case study.

A. Problem Statement

Since Ghana embarked on its financial sector reforms of liberalizing its domestic banking sector, the intent has been one of changing the competitive landscape of the sector in order to increase efficiency and the competitiveness of the individual banks operating within the sector and the banking sector as a whole. Greater competition is needed for a number of reasons namely to enhance the efficiency of financial services, to help stimulate innovation, to contribute to stability and for an organisation to survive within the industry. Companies are however struggling and it needs to adopt a strategy that will give it competitive advantage over the rivals. Operating in the competitive banking environment is very challenging. Although formulating a consistent strategy is an intricacy for many management teams, making that strategy work is even more complex. It is thus not surprising that, after a comprehensive strategy is formulated, significant difficulties usually arise from internal and external environment challenging the implementation process (Hiebiniak, 2002) [12].

In spite of the keen competition in the banking sector, Ecobank continues to chuck successes. The bank over the past decade has won several awards in different categories including “Bank of the Year” for five consecutive years. Recently, the bank is experiencing growth and is widening its market share, of which the bank is now the biggest bank in the country in terms of assets and profits following the acquisition of The Trust Bank (TTB) (PricewaterhouseCoopers, 2012) [12]. This study however seeks to investigate the role strategy plays in the banking environment hence a case study on Ecobank and how it has been able to attain and maintain its market share in terms of assets and management of funds. Strategies are meant to bring satisfaction to customers so that the bank in return will reap high sales and profitability. The kind of strategies and extent to these strategies put

Ecobank Ghana ahead of its competitors warrants an extensive study. This study seeks to establish the role that strategy plays in a competitive banking environment.

II. LITERATURE REVIEW

Strategy is the determination of the basic term goals and objectives of an enterprise, and the adoption of course of action and the allocation of resources necessary for carrying out those goals Chandler (1962) [6]. In Chandler definition of strategy, he attempts to view that strategy is as much as about defining goals and objectives as it is about providing the means for achieving them. Strategy is a broad based formula for how business is going to compete (Porter 1980) [15], that is, what its goal should be, and what policies will be needed to carry out these goals.

Johnson and Scholes (Exploring Corporate Strategy) define strategy as “the *direction* and *scope* of an organisation over the *long-term*: which achieves *advantage* for the organisation through its configuration of *resources* within a challenging *environment*, to meet the needs of *markets* and to fulfil *stakeholder* expectations”.

A. SWOT Analysis and Competitive Advantage

It is wise to think that using organizational strengths to build a competitive advantage does not require thorough external environmental analysis. The fact is that whether an organization is strong or weak is a relative measure with comparison to its external domain (external environment). It is widely proven that organizations can achieve a competitive advantage by relying on organizational strengths and interacting with the strategic choice so as to make use of opportunities and avert threats or override weakness or both.

One can assume that organizational environment is composed of many elements which organizations deal with and form complex cause-and-effect type of relationships with Environment can also be divided into two categories. The first category implies the external environment which contains all changes that take place outside the organizations’ boundary such as economic, political, cultural, and technological changes upon which organizations have little impact.

The second category has to do with internal factors within an organization in various areas such as management, culture, finance, research and development, staff, operational efficiency

and capacity, technical frameworks, and organizational structure.

SWOT analysis refers to the process through which decision makers develop their awareness of organizational environments so as to influence performance now and in the future (Naryanan & Nath, 1993:197) [9]. SWOT analysis can help organizations develop an early alarming system that take into considerations all necessary preparations before possible threats rise, and implement capable strategies to face such threats and minimize their negative consequences.

B. Testing Levels of Competition in the Ghanaian Banking Industry

According to Porter’s 5 Forces Model, the level of competition in an industry is determined by the interaction of five main forces: existing competitive rivalry between suppliers, supplier power, customer power, entry barriers, and threat from substitute products. Porter have attempted to move the understanding of industry competition from a static economic or industry organization model to an emphasis on the interdependence of forces as dynamic, or punctuated equilibrium, as Porter terms it. In Schumpeter’s and Porter’s view the dynamism of markets is driven by innovation. The Ghanaian banking industry is equally facing a lot of dynamism and the dynamics will keep on changing over time at an increasing speed.

The banking industry in Ghana has undergone a lot of transformation over the past two decades due to policies implemented under the financial sector reforms. The number of banks has increased due to easy entry and exit. This has resulted in the diminishing of supplier power while customer power has increased due to increasing customer sophistication and knowledge as well as more banks available to customers to decide which bank to do business with. The industry has also witnessed increasing innovation and the threat from substitute products is eminent. Thus according to Porter’s 5 forces model, one would expect competition in the industry to heighten. Porter’s 5 forces framework is depicted in Fig 2.8.1 below.

As at March, 2012, there are 29 banks, which are recognized and licensed to operate in Ghana (Bank of Ghana, 2012). There is clear signal that the increase of the number of banks within the industry is fast and in any case there is now a great struggle for banks to create and maintain a good market share. Though there might be an

increase of the number of customers, but that cannot dilute the fact that there is a tension of competition between the existing rivals in the industry.

• **Entry Barriers**

As a result of deregulation in the banking sector has created for the prospective new entrants to enter thereby making the industry a favorable condition. Therefore for the analysis based on the existing full-fledged banks in the industry, to them, this force bears a negative sign (-).

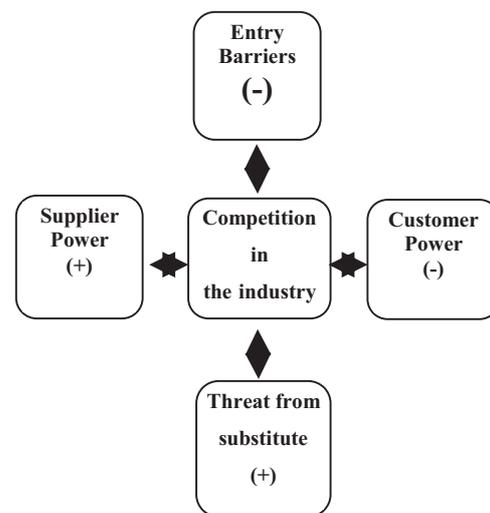


Fig 1 Porter’s 5 forces framework applied to Ghanaian banking industry

• **Threat of Substitute Products**

Though there are 5 regional unit banks, 5 financial institutions and 102 bureau de change operators, there are some features and products of which they can only be obtained from the fully-fledged banks. These include broad network of operations, Current account, Fixed Deposit, etc. For this reason, this force is favorable to the full-fledged banks. It therefore bears a positive sign (+).

• **Customer Power**

Having the whole range of players apart from the full-fledged banks, it is evident that customers can move within the 29 operators as full-fledge banks and can also decide to switch to any banks or financial institutions. Their choice can even extend to the nature of the product. With this concentration the bargaining

of customers always goes high before customers start looking on a differentiated service. Therefore, to the full-fledged banks within the industry this is an unfavorable condition, hence bearing a negative sign (-).

In assessing the level of competition in the Ghanaian banking sector, in 2010 there were 26 banks in the industry of which the total market share of six largest banks in Ghana in 2010, thus, Ghana Commercial Bank, Barclays Bank Ghana, Ecobank Ghana, Standard Chartered Bank, Stanbic and Merchant Bank constituted 54.1% (Price Waterhouse, 2011) [9]. This means that the six largest banks mobilised 54.1% of the total industry deposits. Theoretically, industries in which the concentration ratio is under 50% are considered effectively competitive (Aboagye-Debrah, 2007) [9]. According to Aboagye-Debrah (2007), industries in which the concentration ratio is at least 50% but less than 70% as the case of Ghana, the industry is considered as weak oligopolies (the other twenty banks still command 45.9% and a situation where the ratio is more than 70% are considered as strong oligopolies which means that the banks in the industry have a greater ability to influence the price. This therefore means that the industry is competitive and cannot be commanded by only the largest banks.

III. CONCLUSION

The study sought to examine the role of strategy in a competitive business environment using Ecobank Ghana Limited. The analysis looked at Ecobank's performance in order to identify its strengths and weaknesses. Apart from maintaining its position as the 1st largest bank in Ghana, the bank still remains competitive in the banking industry. Ecobank Ghana's share of total industry deposits increased and the bank's deposit mobilization strategy is targeted at ensuring that the bank is always self-funding at the cheapest possible cost.

Ecobank Ghana remains a profitable and financially sound bank with a solid profitability growth in spite of the increasing competitive environment. Revenue lines have experienced positive growth despite the increasing competition. Strategy therefore played an important role in this regard.

Without strategy an organization becomes bunch of individuals, hence strategy is required to ensure collective actions and concentration of efforts towards achieving organizational plans

and objective. Strategy as plan, ploy pattern, position and perspectives defines the organization by providing proper understanding of the organization to the people and a way of differentiating it from others. Strategy provides consistency and stability. It resists changes thereby ensuring consistency which gives a sense of being in control to the management and relief from the anxiety created by complexity. Strategy is a broad based formula for how business is going to compete [9].

The study therefore concludes that the competitive strategies of Ecobank Ghana are effective and that the strategies have contributed to high financial performance of the bank. The impact of competitive strategies on the performance of the bank is increasing sales volume; profit efficiency, increase productivity, increase in ROE which enhances customer service.

A. Recommendations

In view of the findings of the research the following recommendations are made:

- To possess and sustain a competitive advantage, Ecobank Ghana should take great care of carrying out SWOT analysis on a continuous basis.
- The study recommends that the bank should work hard to build and sustain its competitive advantage and be prepared for the next wave of market reforms and restructuring by applying new methods of information technology and upgrading the skills of staff and management.
- Mergers with or acquisitions of other banks is also recommended since there are a large number of local banks. The acquisition of TTB accounting to the study proved successful.
- It is also recommended that the bank should seek to building new capabilities and competition awareness and that should also be the driving force for further service development and business partnerships.
- Customer service and turnaround time should be greatly improved to make banking easy, quick and convenient. Modern queue management systems should be employed to render excellent services to customers. The bank needs to train staff, particularly those at the frontline to be more customers - friendly and focused so as

to meet and exceed the expectations of customers.

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