

# Exploring the competitive environment of a South African bank

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## **ABSTRACT**

### **Exploring the competitive environment of a South African bank**

**Keywords:** competitive environment, banking industry, SWOT analysis, PEST analysis, rational strategy

The main objective of this study was to explore both the internal and external environment of the South African banking industry to enable Bank A to identify and determine their competitive advantage. Detailed knowledge regarding the internal and external environment will enable the management of Bank A to make informed decisions and in turn develop competitive strategies. Bank A is in the process of moving into the retail and wholesale market segment within the banking industry. As a small niche bank, it is a daunting task for Bank A to move into the retail and wholesale market segment as the latter is dominated by the “big five” banks. An analysis of Bank A’s competitive environment is therefore critical.

New entrants to the banking industry have been responsible for increased competition and have furthermore contributed to many new challenges in the retail and wholesale segment of the banking industry. By obtaining competitive advantage or moving into new market segments has become important for managers to gain market share. As such, accurate and timeous information about markets and competitors allow managers to make better informed strategic decisions.

The study is important as limited information is available about the South African banking industry and the ability of companies to move into previously unexplored market segments. The aim of this study has been to fill this knowledge gap by providing information about the competitive environment of the banking industry and thereby enhancing strategic decision-making for any bank aiming to move from one market segment to another.

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## **CHAPTER 1**

### **1 INTRODUCTION**

#### **1.1 BACKGROUND**

The banking system in South Africa is well-developed and effectively regulated. The banking system consists of a i) central bank (South African Reserve Bank), ii) five large banks also referred to as the “big five” banks, iii) investment institutions, and iv) a number of smaller banks (PWC, 2013:8).

Currently the market segments in the South Africa banking environment are divided into (PWC, 2013:8):

- Wholesale: this segment consists of corporate banking, foreign exchange and business banking; and
- Retail banking: this segment is responsible for deposit taking and transactional banking, electronic banking and personal banking.

Corporate banking and business banking remain the most competitive within the banking industry, while the "big five" banks dominate the retail market (Anon, 2013). Business banking, within the wholesale segment, and transactional banking (retail banking market segment), are viewed by banks as areas to focus on when considering a change in strategy. Positioning a bank based on these focus areas is therefore required to enable competing in these areas (PWC, 2013:2).

The South African banking industry was ranked first among 144 countries for the country’s regulations of its securities exchange and the auditing and reporting standards that companies have to comply with. The strong position in South Africa’s banking industry in terms of regulatory standards and corporate reporting continues to reflect well on the credibility of its institutions and regulators in spite of the country facing economic and socio-political challenges (PWC, 2014:2).

The South African banks are currently focussed on expanding their footprint, product offerings and customer capabilities in markets within and beyond South Africa. Currently in Africa, 80% of people of a population of 1.13 billion people are

still without a bank account (Oberholster, 2015). The level of growth in Africa is therefore a focal point for the South African banking environment. The major South African banks have highlighted their strategic objective of enhancing the earnings contribution of their operations in the rest of Africa and as such it remains a core area of focus for the banks (PWC, 2014:2). This study focuses on a South African bank, from here on referred to as Bank A. The aim for Bank A is to compete in these new markets within and beyond South Africa.

### **1.1.1 CASE STUDY: BANK A**

Bank A is a South African commercial bank but regarded in the market as a niche specialist bank. Bank A has over 150 years of experience and is licensed and locally controlled by the Reserve Bank of South Africa.

In the previous two years Bank A has investigated the option of moving into a different market segment. The aim of Bank A is to progress from a niche specialist bank into a competitive retail bank. However, the challenge for Bank A is to identify a strategy for this progression by *inter alia* contextualising the competitive environment of the banking industry.

According to a PricewaterhouseCoopers (PWC) survey conducted in 2013 of the South African banking industry; the likelihood of new entrants into the South African banking industry is viewed as low but it is acknowledged that a threat is posed by non-traditional competitors such as retailers and mobile service providers (PWC, 2013:2). As such, Bank A would need to adjust its strategy and evaluate its competitive environment to progress from a specialist niche bank into the business and retail banking market segments.

Strategy is concerned with the ability to cope and as such fit in with the environment of the company (Botten, 2008:37). Analysing the competitive environment, or conducting an environmental analysis, may be undertaken as part of a strategy formulation process in one of two ways (Botten, 2008:37):

- Rational strategy formulation approach: the organisation has a formal and rational strategy formulation process in which information is gathered as part of a proposal strategy; and/or

- Emergent strategy formulation approach: a continuous process of environmental scanning: This process is the continuous inspection and scanning of the environment. It is recommended to have many staff involved in this process in order to maximise the information and create acceptance if change is required.

The first method, i.e. the rational strategy model, identifies two areas of analysing the competitive environment on which this study will focus. These areas are i) corporate behaviour, and ii) environmental analysis.

A number of techniques are available for management to use and analyse the competitive environment of a company. These techniques include the political, economic, social and technological (PEST) analysis and strengths, weaknesses, opportunities and threats (SWOT) analysis techniques (Barney, 1995:49; Korkmaz & Messner, 2008:208).

Furthermore, the rational strategy model has identified the SWOT as the corporate behaviour analysis and PEST as the technique for environmental analysis (Botten, 2008).

The *SWOT analysis* provides helpful information for matching resources and capabilities to the competitive environment in which the company operates. The technique can be used as an instrument for devising and selecting strategy, and is equally applicable in any decision-making situation, provided the desired objective has been clearly defined (Van Assen, Van den Berg & Pietersma, 2009).

PEST is a strategic planning tool to assist any company in analysing their business environment (Analoui & Karami, 2003:74). PEST highlights the external factors of the following: i) the political; ii) economic; iii) social; and iv) technological environments (Analoui & Karami, 2003:74). Thomas (2007:13) stated that a PEST analysis can be used as an instrument to define and measure the effect of various major variables which are distant from the company, but also have an impact on the company. Thomas (2007:13) also stated that the PEST analysis is often used in conjunction with Porter's five forces model and that it has become a powerful tool for reducing the parameters of risk. Porter's five-force model is, however, used to analyse the role of competition (Porter, 1980; Porter, 2008:80). Furthermore, Porter's value chain analysis techniques can be used to analyse the costing process

of a business from beginning to end (Gereffi, Humphry & Sturgeon, 2005:79; Porter, 1980).

For the purposes of this study, a PEST analysis and a SWOT analysis were conducted on Bank A. As this study is a mini-dissertation, Porter's five forces model and value chain analysis technique fall outside the scope of this study.

### **1.1.2 LITERATURE REVIEW OF THE TOPIC/RESEARCH AREA**

For Bank A as a small niche bureau, it is a daunting task to move into the retail market as the latter is dominated by the "big five" banks. An analysis of Bank A's competitive environment is therefore critical. However, limited research has been conducted on the analysis of the competitive environment of a bank planning to move into a new market segment.

A number of studies focussing on the banking industry in the United States of America (USA) were found, including Massaro (2000), Zhou (2004), and Yun (2005). The study conducted by Massaro (2000) investigated the restructuring of the USA banking industry over the last 20 years. It was found that banks have shown new developed products and services beyond those traditionally offered to gain market share against strong non-banking competition. The study also noted that a traditional SWOT analysis was relevant to all industries and concluded that competitive advantage was gained as a result of innovation and responsiveness which are not exclusively a function of size (Massaro, 2000).

The study conducted by Zhou (2004) also focussed on the USA banking industry and highlighted the importance of branding in the banking environment. Zhou (2004) found that once a company has succeeded in building up a well-known brand it established a brand of the company itself. Commercial banks cannot rely on attracting customers due to the homogeneity of the commercial banking products. It is therefore likely that banks can differentiate themselves in the market by establishing a good brand name (Zhou, 2004).

The third study was conducted by Yun (2005) and focussed on the mixed operation within the USA banking industry. The focus was on banks taking the lead in mixed operation which further assists the financial comprehensive service ability, strength

and competitiveness. The study focused on the significant impact of mixed operation and the future of banking. A SWOT analysis was introduced in this study to assist with planning from both multi-level and multiple perspectives (Yun, 2005).

From the above it can be gathered that these three studies were all conducted within the USA banking industry. None of these studies were done from a South African perspective.

### **1.1.3 MOTIVATION OF TOPIC ACTUALITY**

According to Du Toit (2003:114) entry into the economy requires high-grade competitive intelligence on i) standards, ii) regulations, iii) consumer preferences, iv) competitor strategies, and v) business styles. Such intelligence forms part of the competitive environment.

New entrants to the market resulting in increased competition have contributed to many new challenges in the retail and business banking segment of the banking industry. Obtaining a competitive advantage has become important for managers to gain market share or moving into new market segments. As such, accurate and timeous information about markets and competitors allows managers to make better informed strategic decisions.

The study is important as limited information is available about the South African banking industry and the ability of companies to move into different market segments. The aim of this study has been to fill this knowledge gap by providing information about the competitive environment of the banking industry and thereby making strategic decision-making for any bank aiming to move from one market segment to another possible.

## **1.2 PROBLEM STATEMENT**

Presently Bank A is uncertain about their position in the market. Furthermore, the approach the bank should follow in moving into the retail banking market by successfully launching retail products is undefined.

According to Hoskisson, Hitt and Ireland (2004) strategic competitiveness is achieved when a bank is able to satisfy a group of customers by capitalising on its

competitive advantages. However, Bank A is currently struggling to position itself in the market especially since it is moving from being a niche bank into the retail and business banking market segment.

The following primary research question can therefore be formulated as:

P<sub>1</sub>: What is the internal and external environment in which Bank A finds itself?

### **1.3 OBJECTIVES**

#### **1.3.1 MAIN OBJECTIVE**

The main objective of this study has been to explore both the internal and external environment of the banking industry to enable Bank A to identify and determine their competitive advantage. Detail regarding the internal and external environment will enable management to make informed decisions and also develop competitive strategies.

#### **1.3.2 SECONDARY OBJECTIVES**

The secondary objectives will support the achievement of the main objective and can be formulated as:

- Identifying the applicable research method to follow to achieve the set research objectives;
- Conceptualising the use of the PEST and SWOT analysis in understanding the competitive environment of the South African banking industry ;
- Conducting a SWOT and PEST analysis of Bank A's competitive environment;
- Summarising, concluding and providing recommendations regarding the competitive environment of Bank A.

### **1.4 RESEARCH DESIGN/METHOD**

The research method followed is aimed at achieving the set research objectives. The proposed research approach to be followed is a case study approach and both a literature review and an empirical study were conducted.

### 1.4.1 LITERATURE REVIEW

The focus of the literature review falls on conceptualising the SWOT analysis and PEST analysis as techniques used to identify the internal and external environment. Previous literature published in scientific journals, textbooks, subject-specific magazines and newspaper articles was gathered for purposes of the SWOT and PEST analyses.

### 1.4.2 EMPIRICAL RESEARCH

This exploratory empirical research aimed to identify and present the internal strengths and weaknesses within Bank A as well as the external opportunities and threats within the South African banking industry. Both a qualitative and quantitative approach was followed by utilising the two measuring instruments of interviews and questionnaires. Firstly, semi-structured interviews were conducted with current staff of Bank A. These staff members were identified and sampled based on their working experience within the banking industry of South Africa. The focus was on the external and internal business environment of Bank A. The sample was between 10 and 15 staff members. The topics that were discussed during the interviews included their perceptions of Bank A's strength, weaknesses, opportunities and threats.

Secondly, questionnaires were used to obtain quantitative data on the perception of Bank A's strengths, weaknesses, threats and opportunities from staff other than those interviewed. The questionnaires were sent out to current staff members from Bank A. The staff were representative members from the following divisions: marketing, finance, bank products, human resources and information technology. The questionnaire was formulated based on information obtained through the literature review and making it applicable to Bank A's current environment.

## 1.5 KEY DEFINITIONS

The following definitions were used in this mini-dissertation:

**Competitive environment:** The term *competitive advantage* refers to the ability gained through attributes and resources to perform at a higher level than others in the same industry or market (Porter, 1985). Competitive advantage is viewed as a

key determinant of performance (Porter, 1985). The company's performance is significantly dependent on the industry environment (Porter, 1985).

**PEST analysis:** PEST is a strategic planning tool intended to assist any company in analysing their business environment (Analoui & Karami, 2003:74). PEST highlights the external factors of the following: i) the political; ii) economic; iii) social; and iv) technological environments (Analoui & Karami, 2003:74).

**Rational strategy model:** The organisation has a formal and rational strategy formulation process in which information is gathered as a part of a proposal strategy (Botten, 2008:37).

**SWOT analysis:** A SWOT analysis identifies a company's strengths, weaknesses, opportunities and threats in the internal and external environment (Rothaermel, 2012). The SWOT analysis is a critical assessment of a company's strengths, weaknesses, opportunities and threats of the internal and external environment before the preparation of a long term plan (Botten, 2008:84).

**Strategy:** Competitive advantage is the central theme of strategy management (Chandler, 1962). Chandler (1962) described strategy as the determination of long-term goals and objectives of a company and the necessary resources to achieve the set company's goals and objectives. Strategy is concerned with the ability to cope and fit in with the environment of the organisation (Botten, 2008:37).

**Research design:** Research design can be viewed as the master plan for identifying methods and procedures aimed at collecting and analysing data (Adams, Khan, Raeside & White, 2007). Research design focusses on the end product, the aim of the result and what kind of study is being planned (Mouton, 2009). The point of departure for research design has been the research problem (Mouton, 2009).

**Research methodology:** Methodology focusses on the research process and the tools used in conducting the research (Mouton, 2009). The point of departure for research methodology was to identify specific tasks such as data collection (Mouton, 2009).

**Case study research:** The case study focusses on the core skills required in real life to manage situations in business which are often complex. Case studies can be

very practical when the case study is discussed and analysed in small and/or large groups with a course of action often agreed upon in such discussions (Remenyi, Williams, Money & Swartz, 2010). Case study research can furthermore be used to address any area of research, idea and concept (Remenyi *et al.*, 2010).

## **1.6 OVERVIEW**

### **Chapter 1: Introduction and background**

This chapter provides an introduction to the study by a discussion of the South African banking industry and Bank A as case study. This is followed by a problem statement, research objectives and the research method of the study.

### **Chapter 2: Research method**

This chapter presents the research method followed in the study.

### **Chapter 3: Assessing the competitive environment**

This chapter will focus on the literature review of the study. Each component of a PEST and SWOT analysis was examined. This enabled the use and implementation thereof. The South African banking industry will be conceptualised.

### **Chapter 4: Results and findings**

This chapter presents the results of the empirical study. The research method was followed to study the current banking environment and establish the competitive environment of Bank A. The results of the empirical study are presented.

### **Chapter 5: Summary, conclusion and recommendations**

The final chapter contains a summary of the research. The information in the literature study and the empirical study are used in conjunction to highlight the competitive environment of Bank A and the external banking environment. The conclusions, recommendations and limitations of the study will also be discussed in this chapter.

Chapter two presents the research method followed in this study.

## CHAPTER 2

### 2 RESEARCH DESIGN/METHOD

#### 2.1 INTRODUCTION

The main objective of this chapter is to address the secondary objective of identifying the applicable research method to follow to achieve the set research objectives (refer chapter 1, page 6).

The chapter firstly defines concepts of research design and research methodology. The two research approaches are defined followed by an explanation of the different types of research. The research approach and type of research applicable for this study are identified. The chapter further focuses on the chosen sampling technique and the data-collection techniques. Reliability and validity of the research conducted are considered and the role that ethics plays in the process is discussed.

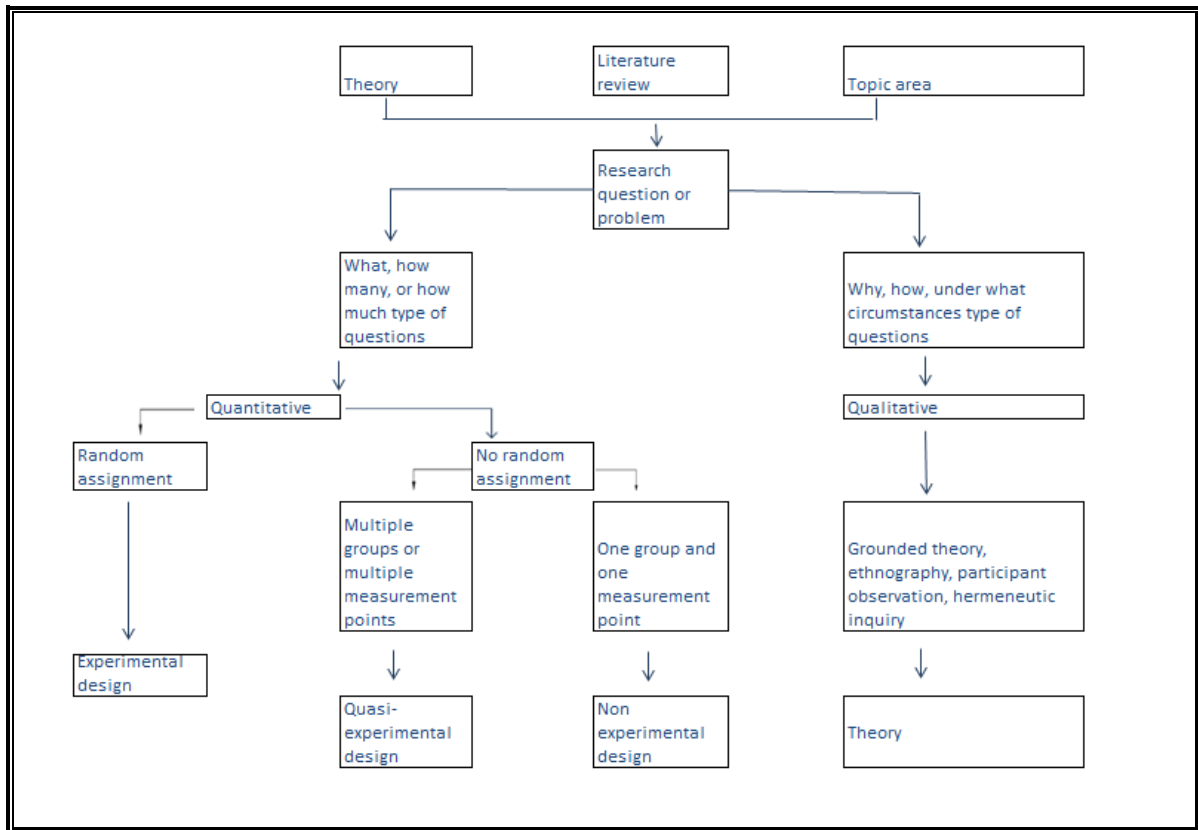
It is important to obtain a blueprint of the research conducted. This can be regarded as the research design of the study. The **research design** is the framework for answering the research questions in order to achieve the set research objectives (refer chapter 1, page 6). Research design can be seen as the master plan for identifying methods and procedures in collecting and analysing data (Adams *et al.*, 2007). According to Mouton (2009) research design focuses on the end product, the aim of the result and what kind of study is being planned. The point of departure for resource design is the research problem.

The research design in this study therefore provides the framework and guidance for identifying the procedures used to gather information and how this information can be analysed and used.

**Research methodology** according to Remenyi *et al.* (2010) refers to an organisational framework in which research can be conducted. It refers to a problem that can be resolved in practice by using a research programme (Remenyi *et al.*, 2010). Leedy and Omrod (2005:12) define research methodology as a general approach that prescribes the selected tools to conduct the research. The summary of research methodology according to Mouton (2009) is that methodology focus on the research process and the tools used in conducting the research. The point of

departure for research methodology will be to identify specific tasks such as data collection. A simplified research design is illustrated by Figure 2.1.

**Figure 2.1: Simplified model of research design**



Source: Lyons and Doueck (2010)

The research design illustrated in figure 2.1 identifies the framework to identify the processes to be followed in conducting the research. It starts with using the theory, literature review and the topic area to identify the research question or problem. The research question asked on the one side is *why, how, under what circumstances* and on the other hand *what* and *how many*. The “what” and “how” questions are quantitative questions, splitting between random assignment (experimental design) or no random assignment (non-experimental design). The “why” and “how” questions are qualitative and make use of grounded theory, ethnography or participant observation.

## 2.2 RESEARCH APPROACHES

According to De Vos, Strydom, Fouché and Delpont (2011:63) there are two well-known approaches to research namely the quantitative and qualitative approach.

### **2.2.1 QUANTITATIVE AND QUALITATIVE APPROACH**

Each of these two approaches has its own methods of inquiry, purposes and strategies for collecting data (De Vos *et al.*, 2011:63). A quantitative approach uses quantitative data that can be measured and questions can be asked such as what, how many and how much? Qualitative data on the other hand is not measurable and the questions answered by qualitative data include why, how and under what circumstances (Lyons & Doueck, 2010)?

After the research question has been identified, the required type of evidence to be collected can be identified and furthermore how such information will be analysed. The evidence required in qualitative research can range from written reports, audio recordings, interviews and verbal testimony. On the other hand, quantitative data can be in the form of measurements of the subject of interest. According to Hair, Money, Samouel and Page (2007:152) the purpose of a quantitative approach is to test data while a qualitative approach is more intended for discovering information. Quantitative data can be used to analysis trends where qualitative data can discover values within the information found (Hair *et al.*, 2007:152).

### **2.3 TYPES OF RESEARCH**

Various types of research exist. The following three types are discussed, namely i) explanatory research, ii) descriptive research, and iii) exploratory research.

#### **2.3.1 EXPLANATORY RESEARCH**

Explanatory research describes phenomena and explains why behaviours in relationships are the way they are. This research explains social relationships and events. This research requires advance knowledge of the nature of social events and structures (Adams *et al.*, 2007).

#### **2.3.2 DESCRIPTIVE RESEARCH**

Descriptive research uses a narrow set of data collection according to Adams *et al.* (2007:81). The questions asked in descriptive research may be for example what are the age group of kids going to the movies but may not really focus on the reasons why they are going to the movies. The aim of descriptive case study

research according to Yin (2003) is to describe, investigate and interpret a certain phenomenon.

### **2.3.3 EXPLORATORY RESEARCH**

According to Adams *et al.* (2007:81) exploratory studies develop from existing research and are seen as further research. Exploratory research uses the descriptive research to identify, for example, an age group that goes to movies. Exploratory research will use the information of the age group to identify why the age group is going to the movies.

### **2.3.4 STUDY RESEARCH TYPE**

In this study both qualitative and quantitative approaches were followed in collection of the data by utilising the two measuring instruments of interviews and a questionnaire (refer chapter 2, page 18). The data gathered during interviews was qualitative in nature while the data gathered through the questionnaire was quantitative in nature. The study can furthermore be classified as descriptive research as the aim was to describe, analyse and interpret the competitive environment of Bank A.

## **2.4 RESEARCH STRATEGY**

This research followed a case study research approach. Various types of research strategies that were considered include case study research, experimental research, historical research and action research. These research strategies are discussed next.

### **2.4.1 CASE STUDY RESEARCH**

The case study research method assists the researcher in retaining a holistic perspective. According to Remenyi *et al.* (2010) the case study focuses on the core skills required in real life to manage situations in business which are often complex. Case studies can be very practical when the case study is discussed and analysed in small and/or large groups with a course of action often agreed upon in such discussions. Case study research can furthermore be used to address any area of research, idea and concept (Remenyi *et al.*, 2010).

Remenyi *et al.* (2010) argue that case study research can be seen as a soft tool as it does not rely on statistical analysis or the science of mathematics. According to Remenyi *et al.* (2010) the case study is a powerful tool with multiple sources of evidence available to assist the researcher in preparing a convincing argument. Adams *et al.* (2007) concur by highlighting the fact that case study research is in-depth research that views the issues in both the present and the past. Moreover, case studies are often used by operational managers to identify best practice (Adams *et al.*, 2007).

Yin (1994) categorises case study research into four main categories:

- Explanations for the links in real life that is too complex for surveys;
- Explaining in real life the interventions that have occurred;
- An illustrative case study can provide a journalistic account of intervention; and
- Can be used to explain interventions with no clear set of outcome.

#### **2.4.2 EXPERIMENTAL RESEARCH**

According to Biggam (2008:84) experimental research tests a theory using an experiment. In experimental research the problem will firstly be identified by the researcher; the researcher will then formulate the theory and will then implement the experiment to test the theory. The researcher will further make use of statistical tools and techniques to test the theory.

#### **2.4.3 HISTORICAL RESEARCH**

According to Biggam (2008:84) historical research is research that focuses on the past. The research will be in documents and videos and not in real life, thus the researchers require skills in observation and interpretation.

#### **2.4.4 ACTION RESEARCH**

According to Biggam (2008:84) the researcher has a current problem that he wants to resolve. The main aim of action research is to solve the problem. The researchers will be involved in the research as a participant as well. Being a participant in your own research can be problematic.

## 2.4.5 STUDY'S RESEARCH STRATEGY

The research strategy this study followed was case study research. According to Adams *et al.* (2007) case study research is a popular research strategy as it focuses on one organisation. The case study research allowed for a detailed and intensive analysis of the competitive analysis (Adams *et al.*, 2007).

## 2.5 RESEARCH SAMPLE SELECTION

The research followed both the qualitative and quantitative approach in a case study. The sample selection involved most of the employees of Bank A. All head office employees were identified as suitable participants in the data-collection process. The departments of Bank A from which the staff were sampled included (refer Figure 2.4): Administration (Admin), Call centre, Finance, Human Resources (HR), Information Technology (IT), Legal, Management, Marketing, Products, Risk, Sales and Tradeflow.

**Figure 2.4: Bank A's Head Office structure**

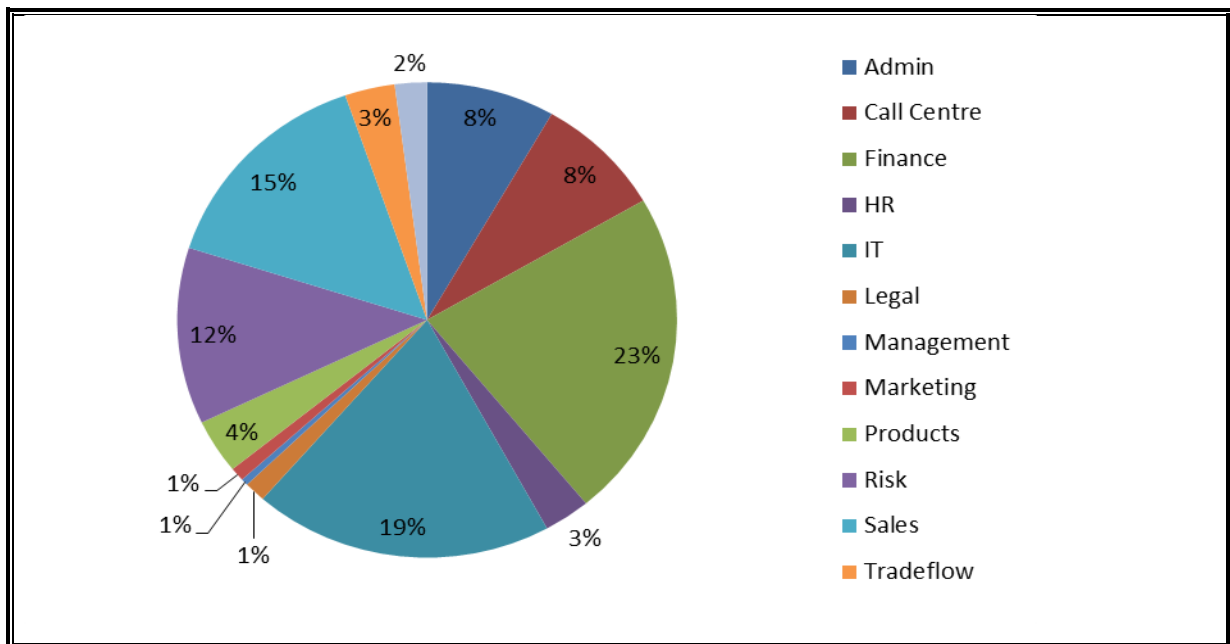


Figure 2.4 indicates the current structure of Bank A. The employees represented from all the departments were regarded as suitable to participate in the case study sample selection.

### **2.5.1 SAMPLING TECHNIQUE**

Sampling technique is the process followed of selecting, for example, a sample population to determine parameters or characteristics within such population (Adams *et al.*, 2007:87). In order to conduct sampling for purposes of carrying out a survey, the following questions had to be asked (Adams *et al.*, 2007:87):

- The sample size that has to be used?
- Whether the size is statistically accurate?
- What method will be used for sampling?
- The cost involved in conducting the survey?
- Will the survey be large or small scale?

According to Adams *et al.* (2007:87) there are two sampling techniques which are probability and non-probability sampling. The probability sampling technique suggests that there is an equal chance that all elements of the population can be selected. The non-probability sampling technique suggests that a population is selected using personal judgement.

For purposes of this study, the latter technique of non-probability sampling was utilised. The population from which the sample was drawn is the complete current staff complement of Bank A. The sample represents participants across all departments of Bank A. The sample selection was based on the involvement of staff in the day to day running of the banking products and operations of the bank. The staff's specific work experience and level of judgement were also considered. This assisted in obtaining a wide spectrum of experienced within the bank.

### **2.6 DATA-COLLECTION TECHNIQUES**

As mentioned previously the two techniques used to collect information are quantitative and qualitative (Lyons & Doueck, 2010).

When following a qualitative approach in collecting data using interviews, the length of the interview will range from 30 minutes to an hour (Hair *et al.*, 2007:152). The sample size when collecting quantitative data is generally larger than the sample size when collecting qualitative data. The sample size when collecting the latter is generally over 50 when compared to qualitative small sample sizes which can range

between one and 50 (Hair *et al.*, 2007:152). Moreover, the results of quantitative information are more objective and the qualitative more subjective (Hair *et al.*, 2007:152).

The interpretation of the qualitative data can be regarded as (Adams *et al.*, 2007:87):

- Seeking correlation between expected and unexpected results;
- Conditions which cannot be anticipated in advance; and
- Findings are more assertions than actual findings.

On the other hand when quantitative techniques are used the research results will be interpreted and analysed making use of statistical methods.

Based on the above discussion, it can be concluded that it was appropriate in this research study to have collected data using both qualitative and quantitative collection techniques in the case study.

### **2.6.1 LINKING THE RESEARCH OBJECTIVES WITH SELECTED RESEARCH METHOD**

The main objective of this study as set out in chapter one (refer paragraph 1.3, page 6) was to research the internal environment of Bank A and the external environment of the banking industry as a whole to enable Bank A to identify and determine their competitive advantage. Detail regarding the internal and external environment will enable the management of Bank A to make informed decisions and also develop competitive strategies.

The first secondary objective supports the achievement of the main objective by identifying the applicable research method to follow. In order to achieve these objectives the data collection techniques include conducting semi-structured interviews with key staff members of Bank A and issuing questionnaires to additional staff members of Bank A.

### **2.6.2 INTERVIEWS**

Qualitative data was primarily collected through interviews. The staff members who were interviewed were identified and sampled based on their work experience

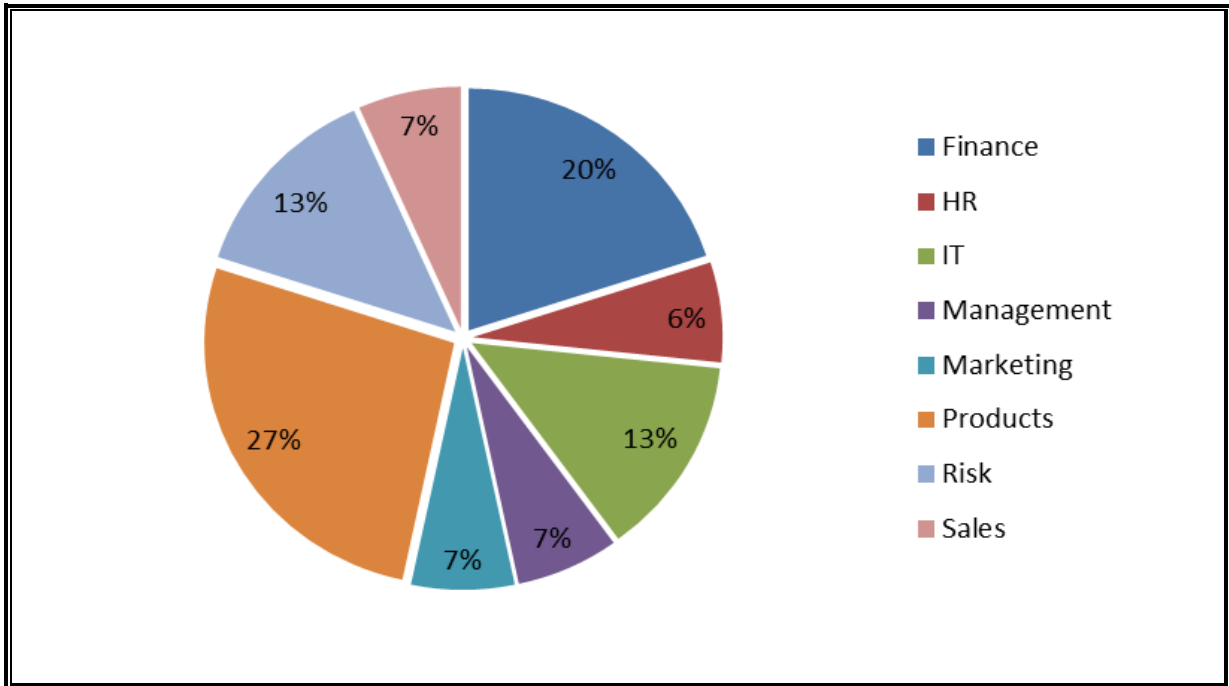
within the banking industry of South Africa. The focus was on the external and internal business environment of Bank A. The sample ranged between 10 and 15 staff members. The topics that were discussed during the interviews included their own perceptions of Bank A's strengths, weaknesses, opportunities and threats. The format of such interviews was face to face. The interviews were held on the premises of Banks A in an allocated room to ensure the interviews were uninterrupted. The primary data of the interviews was documented and audio recorded. The process was conducted as follows:

- Taking notes / Audio recordings;
- Grouping the data to reduce the volume thereof;
- Describing the data findings;
- Analysing the data findings; and
- Interpreting the data.

The interview technique allowed for the participants to discuss their views, issues and experience and allowed the researcher to have an in-depth understanding of the viewpoint of the participant. A framework was prepared to ensure focus on certain issues in order to extract relevant information during the interview. Before the interviews were conducted, the questions in line with the framework were developed to ensure that all the relevant issues were covered and discussed. The format of the interviews was semi-structured with the researcher asking open ended questions.

Figure 2.5 shows the sample of employees selected for interviews from Bank A's departments.

**Figure 2.5: Bank A's sample selection for Interviews**



The interviewees represented the following areas in Bank A:

- 27% Products
- 20% Finance
- 13% IT
- 13% Marketing
- 7% Risk
- 7% Sales
- 7% Management
- 6% HR

The interviewees were a selection of managers and specialists in their respective area of expertise. On the other hand, the questionnaires were also sent out to staff members who did not participate in the interviews but were employed in key areas in Bank A.

### **2.6.3 QUESTIONNAIRE**

The questionnaire was developed based on trends identified in the literature review. The questionnaire focused on the two areas of the rational strategy model, i.e.

corporate behaviour using the SWOT technique and environmental analysis using the PEST analysis.

### **QUESTIONNAIRE DESIGN**

According to Marshall (2005:132) questionnaire design requires careful planning as questionnaires can yield high-quality usable data. A questionnaire is a useful data-collection tool where the following conditions are met:

- The respondents know what is asked of them; and
- The target respondents can be identified.

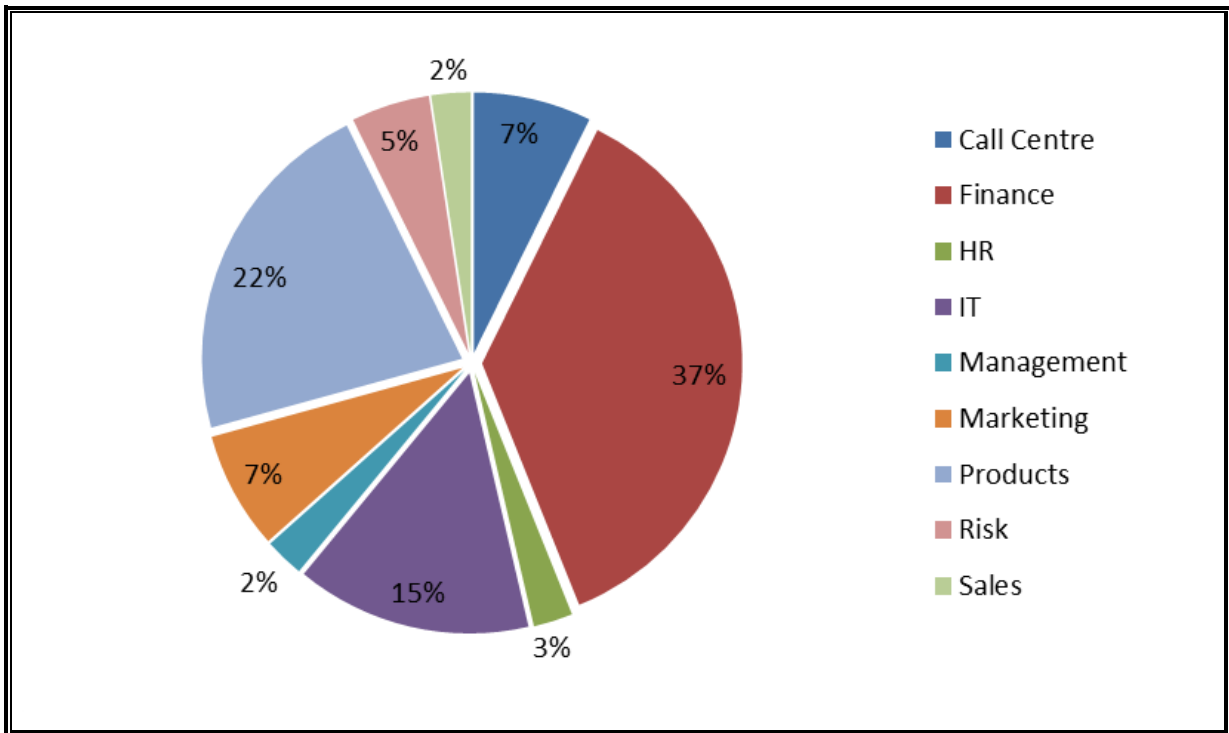
Babbie (2004:244–50) identify the following guidelines when designing a questionnaire:

- Ensure that the questions are clear - respondents need to understand the questions;
- Choose the question form - open-ended versus closed- ended questions;
- Minimize double barrelled questions;
- Questions should be relevant to the subject; and
- Use short sentences.

Questionnaires were used to obtain quantitative data on the perception of Bank A's strengths, weaknesses, threats and opportunities from staff members other than those interviewed. The questionnaires were sent out electronically to current staff members from Bank A. The staff was representative of the following divisions: 1) marketing, 2) finance, 3) bank products, 4) human resources, 5) information technology, 6) call centre, 7) senior management, 8) risk, and 9) sales. The questionnaire was formulated based on information obtained through the literature review and applying such knowledge to Bank A's current environment.

Figure 2.6 indicates the sample of employees selected for questionnaires from Bank A's departments.

**Figure 2.6: Bank A's sample selection for questionnaires**



The questionnaires were sent to employees representing the following areas in Bank A:

- 37% Finance
- 22% Product
- 15% IT
- 7% Marketing
- 7% Management
- 5% Risk
- 3% HR
- 2% Sales
- 2% Call Centre

The sample was selected to collect a range of information based on the experience of staff from different departments.

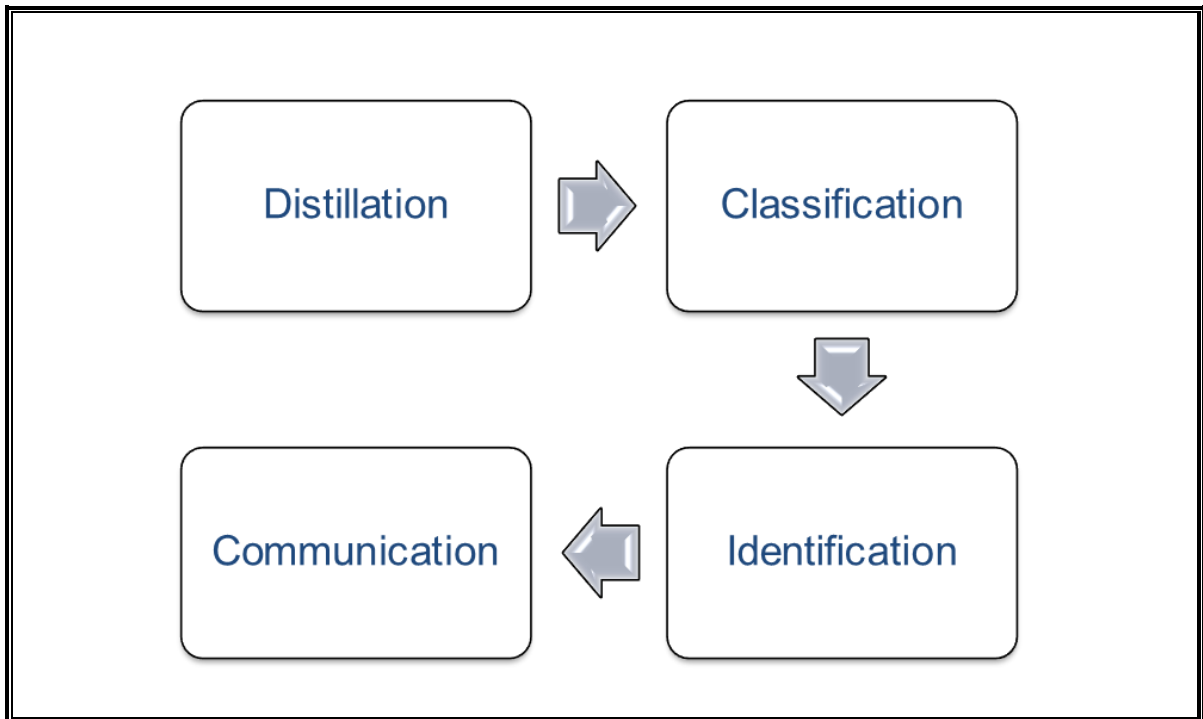
#### **2.6.4 PILOT TESTING**

Pilot testing is using the current framework to identify any weaknesses. Pilot testing is a test run before the formal process. According to Yin (2003:92) pilot testing is intended to identify weaknesses in the design and refinement of design before the final testing. A pilot test was conducted with a staff member of Bank A to identify any weaknesses in the design before the interviews were conducted and questionnaires sent out.

#### **2.6.5 DATA ANALYSIS**

Data analysis is the process of turning data into useful information (Lancaster, 2005). Lancaster (2005) has created a four-phase process (refer Figure 2.7) to illustrate the data flow and how to bring meaning to information.

**Figure 2.7: Process in analysing data**



Source: (Lancaster, 2005)

The figure above indicates that four phases should be completed before the data flow will make sense:

- The data has to be separated each in its own component;
- Classification of the data is the second process of the data flow, to ensure that all the data is titled;
- Identification of the data; and
- Communication of the data.

These four phases were completed in the data-analysis process.

### **2.6.6 VALIDITY**

Three criteria are used to evaluate the quality of data namely reliability, validity and generalizability. These three criteria are important for both qualitative and quantitative research (Adams *et al.*, 2007:235).

Qualitative research requires theoretical sophistication while quantitative research is easily followed by understanding the actual results and findings (Adams *et al.*, 2007:235).

Validity refers to a design to measure something that it is supposed to measure. Hair *et al.* (2007:143) state that the term validity refers to whether a method measured exactly what it intended to measure. Quantitative research methods for determining the validity of the figures include inserting formulae and calculation of earnings (Hair *et al.*, 2007:297). Validity in a case study can be assessed by comparing the outcomes of the case study with the predictions made by the researcher. If the forecasts are accurate, the research can be regarded as valid (Hair *et al.*, 2007:297). The case study was validated by the empirical study's objectives and comparing the outcomes to information gathered during the literature review.

### **2.6.7 RELIABILITY**

According to Adams *et al.* (2007:235) reliability is about consistency, i.e. when we measure something over and over and the result is the same each time. According to Adams *et al.* (2007:235) if the outcome is reproducible the measurement is reliable. Reliability of the data in this research study is critical to ensure accurate information is produced.

### **2.7 RESEARCH ETHICS**

In every stage of the research process ethics are important. It is the researcher's responsibility to operate in an ethical manner and to have integrity. Fraud in research can be found and identified according to Adams *et al.* (2007:235) in the following ways:

- Not identifying the response rate as accurate;
- Only selecting samples according to preference;
- Deliberately manipulating data collections;
- Making up information in the research; and
- Removing information from the researcher's data collection.

In this study, the researcher considered every response from participants and did not manipulate any information provided by participants. Any quotations and ideas provided by the participants in this study have been recognised and referenced accordingly. The participants were assured of the anonymity of both Bank A and individual participants.

## **2.8 SUMMARY**

The aim of this chapter was to address the first secondary objective as set in chapter one (refer paragraph 1.3.2, page 6). In this chapter the different research strategies were discussed. The concepts of research design and research methodology were explained. The researcher also focused on the various research types available and identified the research type suitable for this study. This study has been identified as a case study and both qualitative and quantitative data selection techniques were used to collect the required data. A discussion on the importance of validity and reliability of the data collected followed. The chapter concluded with a focus on ethics in the research process.

The next chapter provides a literature review on methods to assess the competitive environment of a company.

## **CHAPTER 3**

### **3 ASSESSING THE COMPETITIVE ENVIRONMENT**

#### **3.1 INTRODUCTION**

The main aim of this chapter is to address the secondary objective of conceptualising the use of the PEST and SWOT analysis in understanding the competitive environment of the South African banking industry (refer to chapter 1, page 6).

The chapter focuses on the high level regulations of South Africa and the challenges banks face in South Africa. The aim of the chapter is to focus on the concept of competitive environment. The PEST and SWOT analysis description and aims are considered as well as the importance of the competitor analysis.

#### **3.2 REGULATION**

Bank A is a South African commercial bank but regarded in the market as a niche specialist bank. The aim of Bank A is to progress from a specialist bank into a competitive retail bank and business bank. However, the challenge for Bank A is to identify a strategy for this progression by first assessing the competitive environment of the banking industry. The banking system in South Africa is well-regulated and was ranked first among 144 countries in terms of regulating its securities exchange and compliance with auditing and reporting standards (PWC, 2014:2). However, banking regulations are one of the big challenges in today's banking industry. The constant change in regulations and the need to comply with such regulations are challenging for any bank. The constant change in regulations also increases the focus on compliance in the banking industry. The South Africa Reserve Bank that regulates the banking industry, including Bank A, has highlighted the importance of robust controls to prevent money laundering and financing of terrorism. If banks do not comply with such preventative controls, penalties apply. Bank A therefore needs to evaluate this requirement as part of its competitive environment to understand the impact of regulation in moving from a specialist niche bank into a retail and business banking market segment.

Emphasis is also placed on the vulnerabilities of the South Africa banking industry with external custodians located in international jurisdictions. The latter is removed from the governance and control of the domestic banking industry and these external custodians are currently driving to expand their footprint within South Africa. The product offerings and customer capabilities are a focus area to gain market share and compete within the South African market (PWC, 2014:2).

In South Africa banks are focusing on channels and platform innovations with product diversification. South African banks have highlighted the importance of driving customers and products through mobile and online channels (PWC, 2014:2). Bank A needs to assess this part of the competitive analysis to ensure that moving into the retail and business banking market segment that Bank A is in line with the current market behaviours with the current platform and channels that is key focus areas in the industry.

The banking industry is also affected by economic factors such as a concern over i) energy supply, ii) labour unrest, iii) inflation rates, and iv) volatility in exchange rates. These economic factors have a big impact on the emerging markets such as South Africa. The South African retail industry has raised concerns regarding profitability as high employment and inflation continue to affect the industry (PWC, 2014:2). Employment figures linked with household consumption remain important for businesses to monitor as they are one of the factors which drive companies' revenue. These economic factors affect business banking and retail banking within the banking industry. Business banking, within the wholesale segment, and retail banking, is viewed by banks as areas to focus on when considering a change in strategy. Positioning a bank based on these focus areas are therefore required to enable competing in these areas (PWC, 2013:2).

The change in customer demands and new non-bank competitors present a rapid change in the external environment of the South African banking industry. The change in customer demands present opportunities for products and services beyond those traditionally offered. These present opportunities for growth to banks that is best positioned to adapt to new innovations. The change in customers' demands also present changes within regulation around new products.

Analoui and Karami (2013) state that the main reasons for market change are the following:

- Customers' needs and demands change;
- New competitors enter the market such as non-bank competitors currently entering the market, for example mobile companies and technology companies;
- New technologies introducing new products; and
- New regulations by governments.

If Bank A intends to move into business banking and retail banking it needs to understand that this is a key focus area for other banks and that the current competitor environment analysis is crucial before products are launched. It can have a costly effect if Bank A launches products in the business banking or retail bank market segment without understanding the threats in the market. This will enable Bank A to adjust products to be more competitive in the market leading to an improved branding of the product in the industry.

### **3.3 THE CONCEPT OF COMPETITIVE ENVIRONMENT**

Bank A would have to adjust its strategy and evaluate its competitive environment to understand the current environment to progress from a specialist niche bank into the business and retail banking market segments.

According to Chandler (1962) competitive advantage is the central theme of strategy management. Chandler (1962) has described strategy as the determination of long term goals and objectives of a company and the necessary resources to achieve the set companies' goals and objectives. According to Botten (2008:37) strategy is concerned with the ability to cope and fit in with the environment of the organisation. Andrews (1971) argues that strategy is more a pattern of objectives and goals. To achieve these goals the company needs to be defined and furthermore have a vision of the company it wants to be.

Porter (1985) viewed competitive advantage as a key determinant of performance. According to Porter (1985) it is important for a company to position itself in a way where the company can control, to a degree, the internal and external environment. Porter (1985) has identified three generic strategies which are cost leadership, differentiation and focus. According to Porter (1985) this will provide a meaningful

selling proposition of strategic thinking to a company. The question asked by Porter (1985) is what the company's position is in the competitive environment? During this phase of strategic thinking the focus will be on the company's internal environment and the external environment. According to Porter (1985) the company's performance is significantly dependent on the industry environment.

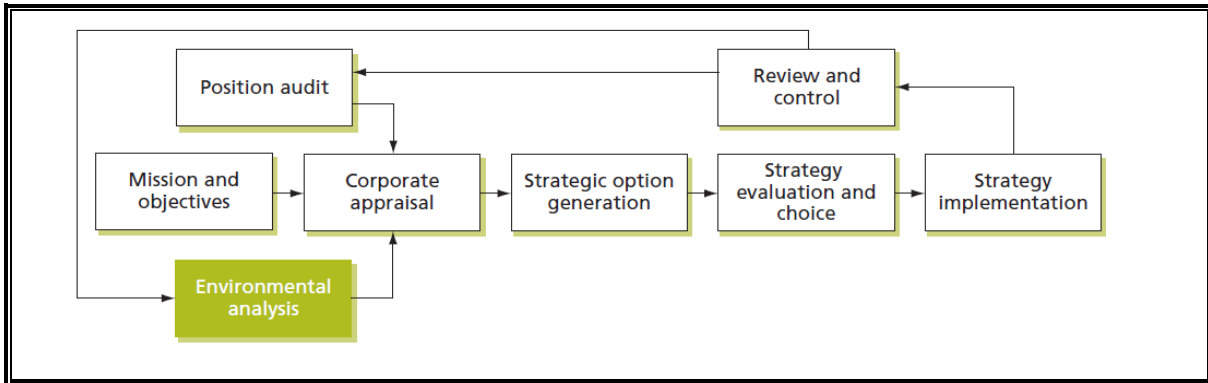
The environmental analysis may be conducted in one of the following ways (Botten, 2008:37):

- As part of the strategy formulation process: the company has a formal and rational strategy process. Information is gathered as a part of a proposal strategy.
- Continuous process of environmental scanning. This process is continuous monitoring and scanning of the environment and will be part of the emergent approach to strategy. It is recommended to have many staff involved in the process to maximise the information and create acceptance if change is required.

A number of techniques are available to use and analyse the challenges within the external environment which in this case is the banking industry. These techniques include the political, economic, social and technological (PEST) analysis and strengths, weaknesses, opportunities and threats (SWOT) analysis techniques (Barney, 1995:49; Korkmaz & Messner, 2008:208).

As stated in chapter one (refer paragraph 1.1.1, page 2) the rational strategy model can be used in the case study of Bank A as the formal strategy of the organisation. The focus falls on the SWOT and PEST analyses within this rational strategy model. The areas that focus on the SWOT analysis in the rational strategy model (refer Figure 3.1) are the corporate appraisal while the PEST analysis focuses on the environmental analysis of the study (Botten, 2008:37).

**Figure 3.1: The rational strategy model**



Source: Botten (2008:37).

### **3.4 PEST ANALYSIS**

A definition of PEST analysis is firstly provided.

#### **3.4.1 PEST ANALYSIS DESCRIPTION**

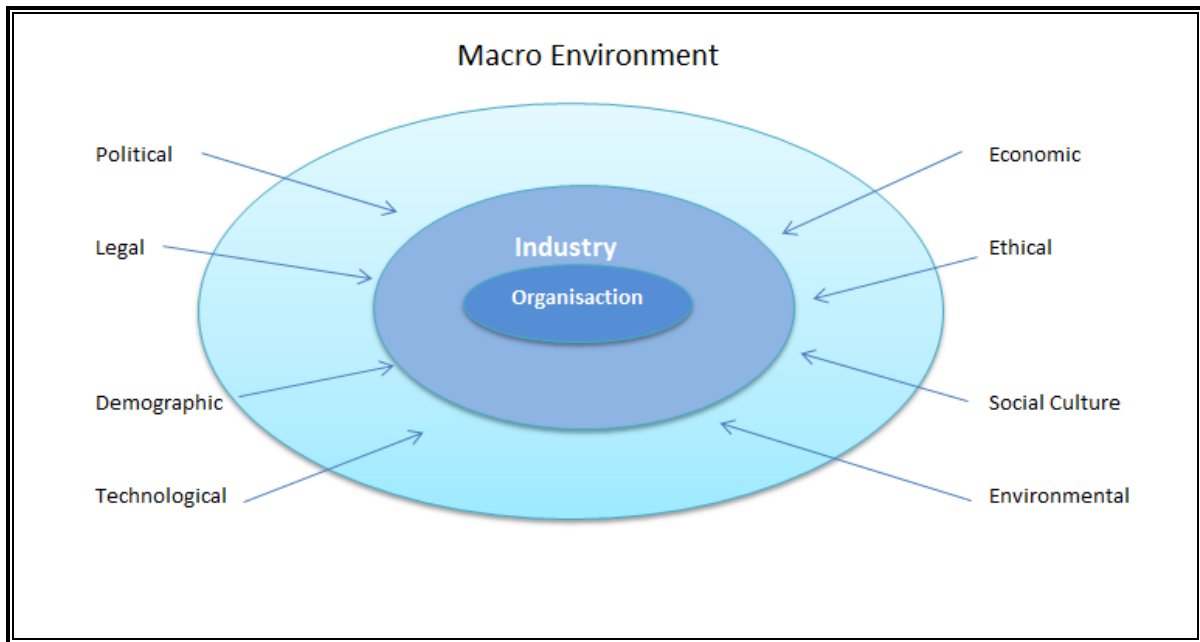
PEST analysis is a strategy tool designed for analysing the external business environment (Analoui & Karami, 2003:74). The analysis is designed to examine the external macro environment in which the bank operates.

PEST is an analysis of the political-, economic-, social- and technological environment of a company's external environment that can affect performance (refer Figure 3.2). These forces (environments) can create threats and opportunities (Rothaermel, 2012).

The aim of the PEST analysis is the following (Rothaermel, 2012):

- Identify current external factors for the company;
- Identify factors that may change in the future; and
- To action on the change for opportunities and threats.

**Figure 3.2: The macro environment of PEST forces**

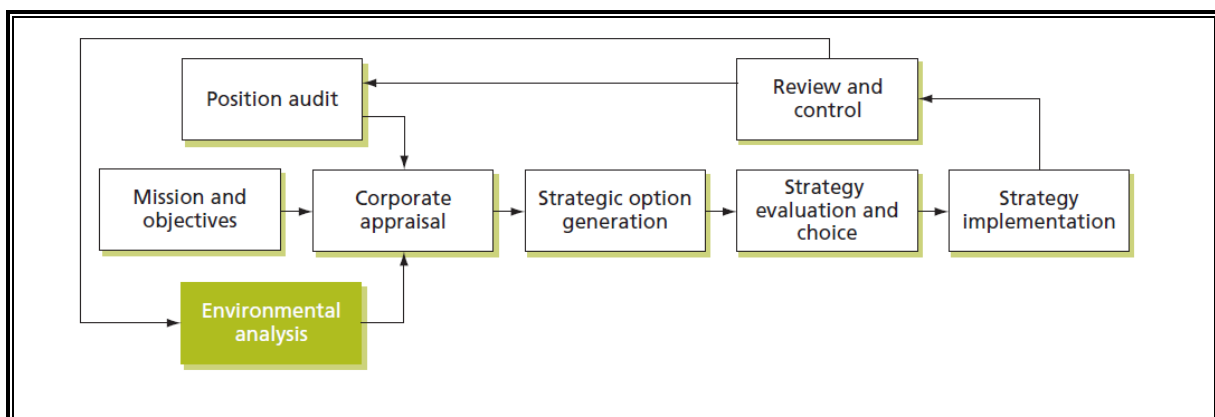


Source: (Rothaermel, 2012)

The summary of the PEST analysis provides an understanding of the overall external picture of the company. The environment can be identifying as the factors outside of management control which can affect the organisation's performance (Botten, 2008:37).

The PEST analysis is part of the environmental analysis of the rational strategy model as indicated below in Figure 3.3.

**Figure 3.3: The rational strategy model**



Source: Botten (2008:37).

Each one of the four environments namely political, economic, social-cultural and technological environments will now be discussed.

### **3.4.2 POLITICAL ENVIRONMENT**

Karlof and Lovingsson (2005:148) state that the political environment is the scanning of trends found in legislation, ordinances and political stability. Hoskisson *et al.* (2005:46) state that the political environment can be seen as the arena in which companies compete for attention. This environment oversees the body of laws, resources and regulation which guides a country's interactions. Thompson and Martin (2010:86) state that political and government policy are influenced by economic decisions. Government can be classified as either a threat or an opportunity with the decisions it makes. These decisions can have a direct or indirect influence on companies.

Examples of this include:

- Interest rates will be dependent on the inflation rate;
- Labour cost will depend on inflation and the involvement of trade unions;
- A legal framework for companies exists in government for example taxation laws, company laws and employment laws; and
- Government spending can influence money supply and affect capital markets.

Companies may not be directly controlled by the political environment but can influence government by directorships, lobbying and public opinion (BPP, 2008:103).

### **3.4.3 ECONOMIC ENVIRONMENT**

Karlof and Lovingsson (2005:148) state that the economic environment is the reviewing of trends found in economic development, access to venture capital, levels of interest and situations in the labour market.

The economic environment focuses on the current and future economic issues that will affect a company (Paul, 2008). These are the following (Paul, 2008):

- Gross domestic product;
- Government policy: both fiscal and monetary;
- Industrial: growth, structure and labour rates;

- Wealth: effect on buying power; and
- Employment.

The economic factors affect the success of any bank's profitability. Economic changes such as interest rates; labour unrest and energy supply can be costly and affect the bank's profitability. According to Thompson and Martin (2010:86) the opportunity to exploit a strategy may depend on the demand, which will exist in a growing economic environment and not in a recession.

South Africa has enormous potential for investment and growth (PWC, 2014:2). This may affect the economic environment in a positive way and assist businesses in launching successful products. However, the growth potential in South Africa may also hold a threat to domestic banks with international companies expanding their footprint in South Africa.

#### **3.4.4 SOCIO-CULTURAL ENVIRONMENT**

Karlof and Lovingsson (2005:148) indicated that the socio-cultural environment is the examination of trends found in demography, ethnical groups, changes in life-style, differences in income, attitudes to leisure and work time.

According to Paul (2008) this environment is the most difficult area to understand as it deals with human behaviours. This area therefore focusses on people's needs and motivations. The following areas fall within the social cultural environment (Paul, 2008):

- Natural segments: differentiators and characteristics;
- Cultural groups; and
- Demographics: family structures and family life stages.

According to Ireland *et al.* (2009:43) the social culture environment is concerned with culture values and attitudes of a society.

Bank A should therefore keep demographic changes in mind when deciding on a strategy. The structure of the population, for example regions and ages of customers, may have an impact on the demand of Bank A's products. Attitudes to leisure, work time and values from the society often drive the economic, political and technological conditions of a country (Ireland *et al.*, 2009:43).

### **3.4.5 TECHNOLOGY ENVIRONMENT**

The technological environment is defined as the review of trends on technological change, maturity of technology and investments of technology (Karlof & Lovingsson; 2005:148). The technological environment involves new activities utilised to create new knowledge used to create output of products and processes (Ireland *et al.*, 2009:44). According to Thompson and Martin (2010:87) technology is crucial in the company and can be used as a competitive advantage over competitors. The success of a product can depend on its technology. However, before technology can be used employee training and funding of such technology are required. It is therefore vital for companies to study the technology environment due to the rapid change in the technology environment (Ireland *et al.*, 2009:44).

The following areas were focused on in determining the technological environment (Paul, 2008):

- Resource and development: cost of new projects;
- Productions: cost and stills;
- Protection of technology: copyrights; and
- Universal availability of technology: differentiation.

Bank A should scan the technology environment to ensure that it has up to date technology. This is to ensure that Bank A's competitors do not have a competitive advantage in terms of technology. As mentioned in paragraph 3.2 (refer page 26) the channels within the banking industry are a key focus area and technology plays a great part in virtual channels such as mobile banking and online banking.

### **3.4.6 BENEFITS OF A PEST ANALYSIS**

The following benefits can be identified when using a PEST analysis (Gilligan & Wilson, 2003):

- A PEST analysis provides a wider business for understanding about the business environment;
- A PEST analysis encourages strategic thinking;
- A PEST may identify threats to a company's profitability; and
- A PEST can assist a company in spotting opportunities.

### 3.4.7 LIMITATIONS OF A PEST ANALYSIS

The following limitations can be identified when using a PEST analysis (Gilligan & Wilson, 2003):

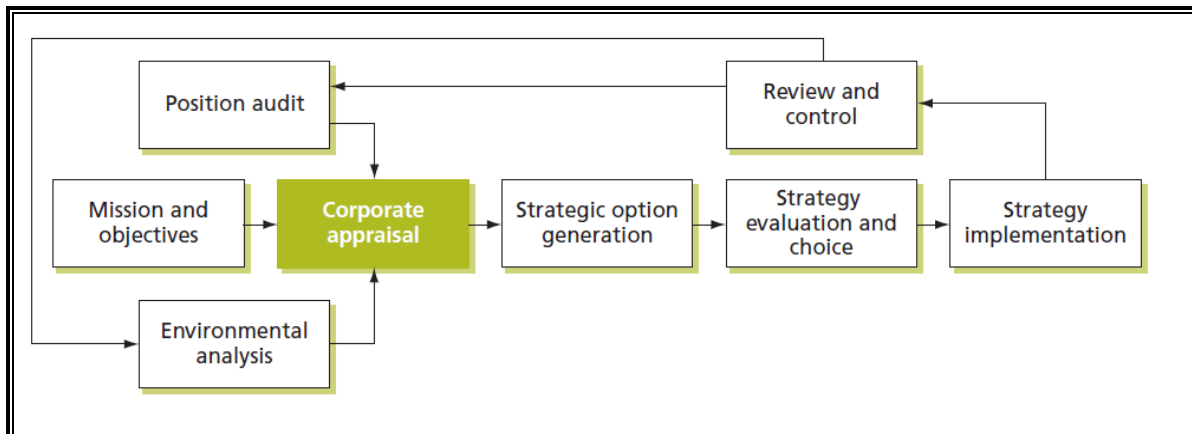
- The constant change makes it difficult to anticipate developments that can affect the organisation's future;
- Collecting large amount of data makes it difficult to distinguish the important information from not important information, i.e. one can get lost in detail;
- The analysis may be based on assumptions and not facts; and
- The PEST needs to be used in conjunction with other factors and cannot be utilised as a tool on its own.

The SWOT analysis is discussed next.

### 3.5 SWOT ANALYSIS

In the rational strategy model shown below in Figure 3.4 the focus area for a SWOT analysis falls under the corporate appraisal area in the formal strategy plan of a company.

**Figure 3.4: The rational strategy model**



Source: Botten (2008:37).

#### 3.5.1 SWOT ANALYSIS description

A SWOT analysis identifies a company's strengths, weaknesses, opportunities and threats in the internal and external environments (Rothaermel, 2012).

The SWOT is a critical assessment of a company's strengths, weaknesses, opportunities and threats of the internal and external environment before the preparation of a long term plan (Botten, 2008:84).

According to Gilligan and Wilson (2003) the SWOT analysis is the best-known and most frequently used model but the quality thereof often suffers due to the superficial manner in which the model is compiled (Gilligan & Wilson, 2003).

As the environment within a company constantly changes, each business unit within the company has to track trends and developments within the market place. Such trends or developments can be categorised as either opportunities or threats to the business (Gilligan & Wilson, 2003).

The success of a company's competitive advantage is influenced by several factors, but most obviously by the company's strengths. These reflect the key success requirements for operating effectively in the target market and exceed its competitor's operational effectiveness. Competence by itself is not sufficient but the constant development thereof creates a more sustainable competitive advantage over time (Gilligan & Wilson, 2003). At the same time the external environment also presents threats. Threats can be grouped according to its significance and the probability of its occurrence (Gilligan & Wilson, 2003).

### **3.5.2 STRENGTHS**

Strengths provide a competitive edge for a company (Rothaermel, 2012). Strengths will be more meaningful if they relate to the competitors. Strengths are mainly derived from marketing of the asset base (Gilligan & Wilson, 2003). According to Thompson and Martin (2010:106) strength is something that the bank is doing well and which can increase its competitiveness in the market.

According to Ireland et al. (2009:90) the most effective companies recognise that strategic competitiveness can only be achieved if a study of the internal company is matched with opportunities that are identified by an external environment study. Companies should convert weaknesses into strengths to take advantage of an opportunity within the external environment.

Thompson and Martin (2010:103) classify several areas in which strengths can be identified:

- Intellectual capital: a work force that is talented, experienced and having advanced technological knowledge;
- If the company has a well-known brand or customers loyalty;
- If a company has an attribute that places the company as a market leader, this can be low cost compared to competitors, unique product, and technology advantage;
- The companies can alliance themselves to partners that can reduce cost or increase value of a product or services; and
- Companies can introduce innovative products, manage to keep operating cost low and provide good services to customers.

### **3.5.3 WEAKNESSES**

A weakness is harmful for the company and can be used by competitors against the company (Rothaermel, 2012). Weaknesses can be seen as disadvantages that need improvement in marketing or strategies (Gilligan & Wilson, 2003). According to Thompson and Martin (2010:111) a weakness is something a company lacks that will provide a disadvantage in the workplace.

Thompson and Martin (2010) identify a number of areas that a company's weakness can relate to:

- The lack of organisational and intangible assets within the company;
- The company is missing the competitiveness capabilities to compete in the market; and
- The lack of skills, experiences, intellectual capital and understanding of technology.

### **3.5.4 OPPORTUNITIES**

Opportunities are a favourable external situation or event which can provide a competitive advantage to a company (Rothaermel, 2012). Opportunities can furthermore be the identification of environmental trends that will lead to a positive outcome for the business (Gilligan & Wilson, 2003). Opportunities can lead to

improved performance if pursued and actioned effectively (Gilligan & Wilson, 2003). According to Thompson and Martin (2010:111) the opportunity within a company can depend on the circumstances within the company. The opportunity could be extremely attractive but unbecoming the company.

An opportunity for one company might be regarded by another company as a threat. In the South African banking industry the threat of non-banks entering the banking market might be regarded by smaller banks as an opportunity to partner with non-banks in order to gain market share where previously it might not have been possible. The larger banks, however, might regard this entrance as a threat.

### **3.5.5 THREATS**

Threats are external situations or events that can affect a company negatively (Rothaermel, 2012). Threats have a negative impact on a company by impacting the risk of achieving its strategy, implementation of strategy, more resources and reduced performance of the company (Gilligan & Wilson, 2003). Ireland *et al.* (2009:37) concur by stating that a threat may affect the company's ability to achieve its strategic competitiveness.

It is important that the managers of Bank A monitor and identify the threats that the bank is facing. This will assist in an improved addressing and management of problems as they arrive. Bank A can turn threats into opportunities which in turn can assist with growth within the bank.

### **3.5.6 BENEFITS OF A SWOT ANALYSIS**

The first benefit of using a SWOT analysis is that it is a simple and practical tool and is easy to understand. The benefits are that the focus of the analysis is on the areas of the internal and external environment affecting the company. The model also assists in identifying future goals and can help with further analyses (Rothaermel, 2012).

A SWOT analysis is designed to achieve the following (Gilligan & Wilson, 2003):

- Separate meaningful data from merely interesting data; and
- discover the role of management to exploit its competencies within each market segment.

### 3.5.7 LIMITATIONS OF A SWOT ANALYSIS

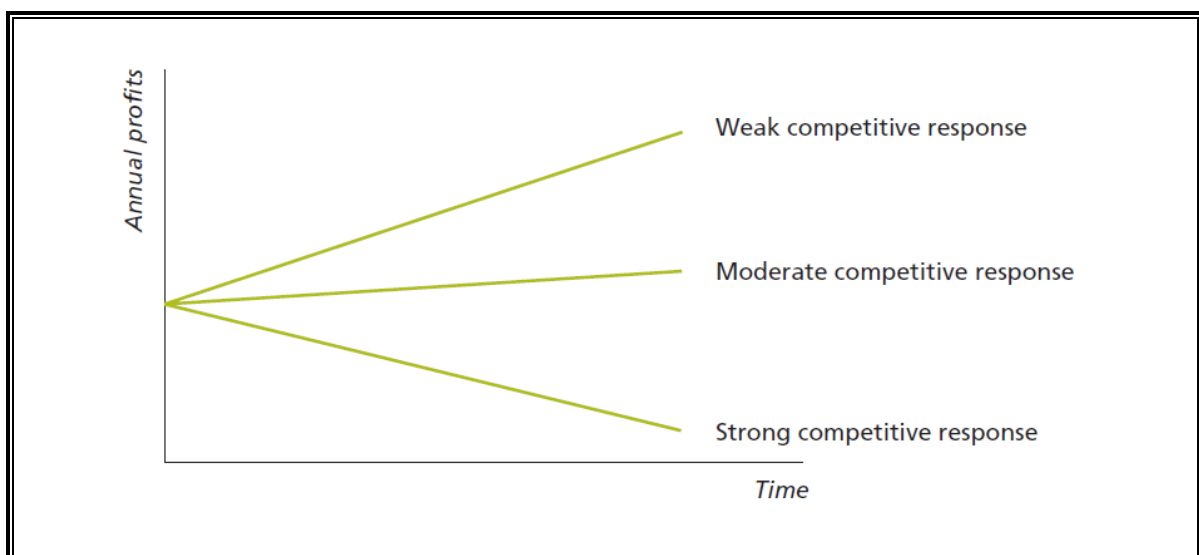
The limitations of a SWOT analysis are the following (Rothaermel, 2012; Gilligan & Wilson, 2003):

- A SWOT analysis can consider an excessive list of strengths, weaknesses, opportunities and threats;
- The prioritisation of the list does not form part of the model;
- The internal and external factors are very broad;
- The SWOT often is based on opinions not facts;
- The company often fails to relate strengths and weaknesses to key success factors; and
- Strengths and weaknesses are seen in isolation and not linked to competitors. The competitor's capabilities are misunderstood.

### 3.6 THE IMPORTANCE OF COMPETITOR ANALYSIS

The business environment is becoming increasingly uncertain and therefore management requires more information for decision-making. Moreover, the response to competitor's actions may have an impact on the profit of the company. Figure 3.5 below indicates the impact on profit linked to the response time to the competitor's actions within a company.

**Figure 3.5: Impact of competitor responses on profit**



Source: Botten (2008:37)

The area of analysis may be a product, customer segment or various regions. A suitable strategy will yield financial returns after taking into account the response of competitors.

According to Gilligan and Wilson (2003) competitors have three areas of focus:

- To assist managers in understanding their competitive advantage/ disadvantage;
- To assist managers in obtaining insight into competitors' past, present and potential future strategies; and
- To provide a base for managers to create future strategies.

The impact of competitors' actions may lead to a company i) launching rival products, ii) cutting prices, iii) aggressively expanding productions, or iv) making costly modifications to products .

### **3.7 SUMMARY**

The main objective of this chapter was to address the secondary objective of conceptualising the use of the PEST and SWOT analysis in understanding the competitive environment of the South African banking industry (refer chapter 1, page 6).

This chapter focused on the South Africa banking industry and the position that Bank A finds itself in within this banking industry. It was identified that Bank A needs to adjust its strategy in order to move into a different market segment. The rational strategy model was identified as an applicable strategy model to follow. Two key areas were the focus point in this strategy model, namely corporate behaviour using the SWOT analysis and environment competitiveness using the PEST analysis.

Both the use of the PEST and SWOT analyses was discussed and explained in this chapter. The PEST analysis was identified as a tool to analyse the external environment of Bank A. The PEST analysis can furthermore determine the impact that this environment will have on Bank A's performance and future growth. The SWOT analysis on the other hand can be utilised to identify both the internal and external environment that Bank A may focus on to achieve competitive advantage.

The SWOT may assist Bank A with ideas on its current position within the banking industry and the potential future of Bank A.

Chapter four presents the results and findings of the study.

## **CHAPTER 4**

### **4 RESULTS AND FINDINGS**

#### **4.1 INTRODUCTION**

The main objective of this study as set in chapter one (refer paragraph 1.3.1, page 6) is to explore both the internal and external environment of the banking industry to enable Bank A to identify and determine their competitive advantages. This chapter addresses the third secondary objective of conducting a SWOT and PEST analysis of Bank A's competitive environment.

Firstly the participants' profile will be presented in order to create an awareness of the profile of the sample followed by an analyses of the data gathered split into three themes: i) Results of the questionnaire, ii) results of the interviews, and iii) comparison between results obtained and findings per the literature study.

#### **4.2 PARTICIPANTS' PROFILE**

The participants who were employed during the period of the study and formed part of the population totalled 50 employees of whom 25 consented to form part of the study. Of the 25 employees, 15 employees were interviewed while 10 employees completed the questionnaire.

The results of the quantitative data-collection technique of questionnaire will first be presented.

#### **4.3 RESULTS OF THE QUESTIONNAIRE**

The results of the data collected using the on-line questionnaire are presented based on the three parts of the questionnaire namely: i) General, ii) SWOT analysis, and iii) PEST analysis.

##### **4.3.1 GENERAL: RESPONDENTS BY BUSINESS UNITS**

Part A of the questionnaire (refer Appendix B, page 71) aimed to gather individual information about the staff of Bank A. Figure 4.1 indicates the responses by business unit. Three (30%) respondents represented the Product business unit, one (10%) respondent was from the Finance business unit, one (10%) respondent was from the IT business unit, one (10%) respondent came from the Marketing business

unit, one (10%) of the respondent were from the Back Office, one (10%) of respondent came from the Risk business unit, one (10%) of the respondent represented HR, and one (10%) of the respondent were from the other business units.

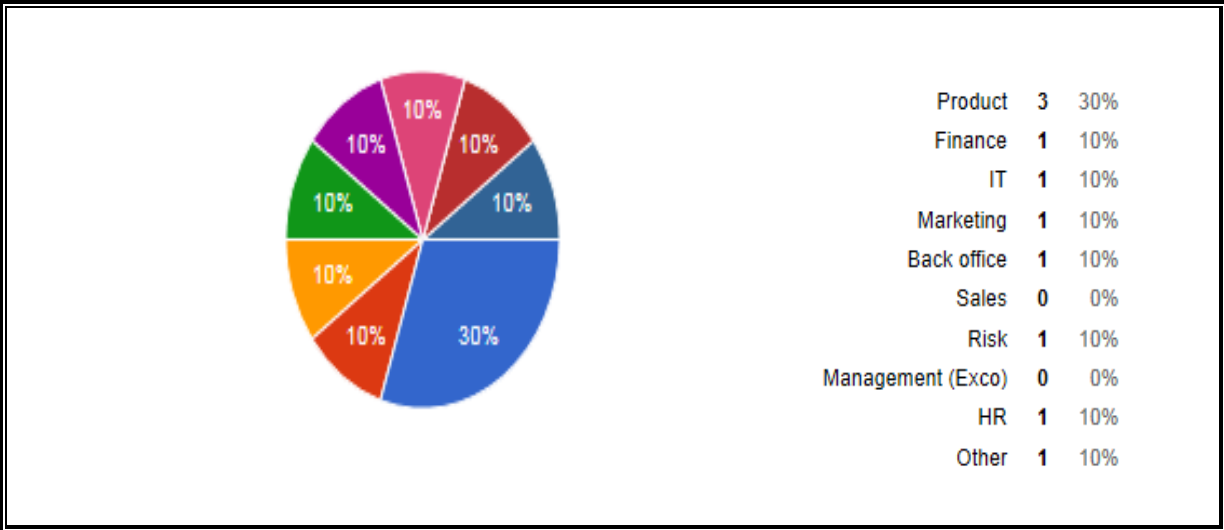
The gender respondents were 50% male and 50% females.

Two groups of three (30%) respondents obtained either a professional qualification and college diploma respectively. Two (20%) of respondents obtained a high school diploma and two groups of one (10%) of respondent obtained a master’s and honours degree respectively.

The majority of the staff had more than five years of experience in Bank A.

All of the respondents had more than five years of experience in the banking industry.

**Figure 4.1: Respondents by Business Units**

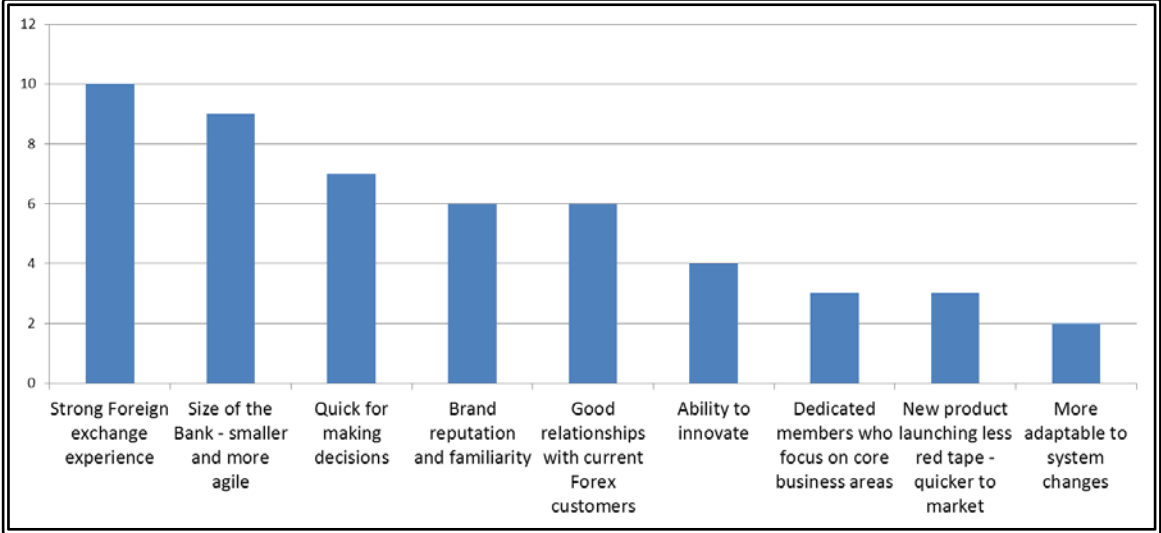


**4.3.2 SWOT ANALYSIS: STRENGTHS**

The respondents were asked to provide five strengths that Bank A might have (refer to Figure 4.2). All ten (100%) respondents ranked that the bank had strong foreign exchange experience. Nine (90%) respondents ranked the size of the bank as a key strength. Seven (70%) of the respondents identified that Bank A was quick to make decisions. The majority of respondents identified the fact that the bank’s current

position strongly focused on specialist niche products where the major strength followed by the size of the bank and thirdly the ability to quickly make decisions.

**Figure 4.2: Strengths identified by respondents**

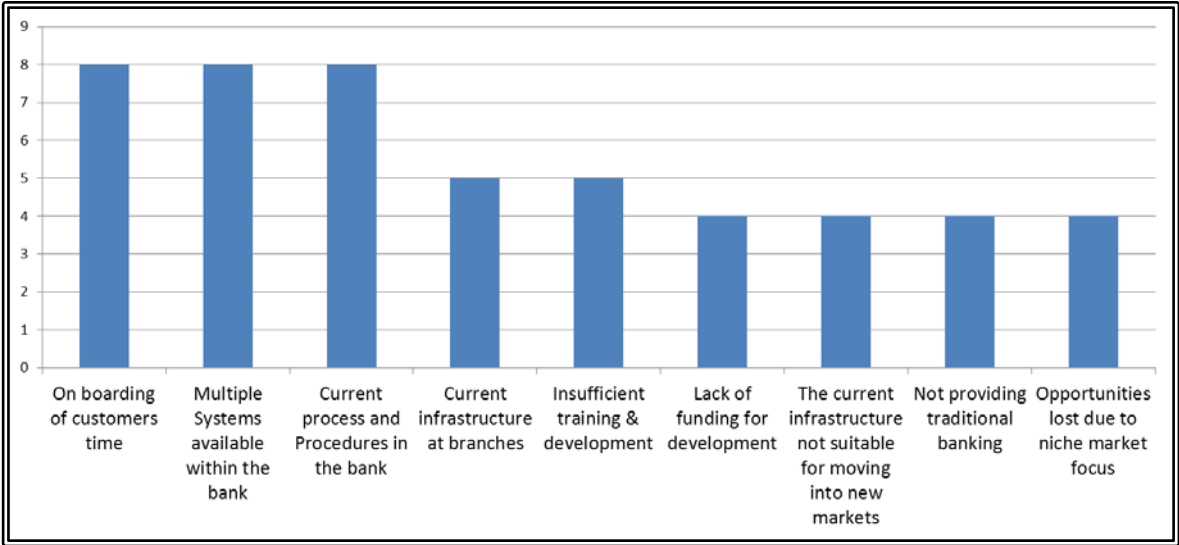


**4.3.3 SWOT ANALYSIS: WEAKNESSES**

The respondents were asked to provide five weaknesses that Bank A might have. The results are presented in Figure 4.3.

The majority of respondent’s identified i) the procedure when taking on new customers also referred to as “on boarding”, ii) multiple IT systems available within the bank, and iii) current processes and procedures as a weakness in the bank. Five (50%) respondents identified the current infrastructure at branches as a weakness as well as training and development for staff.

**Figure 4.3: Weaknesses identified by respondents**

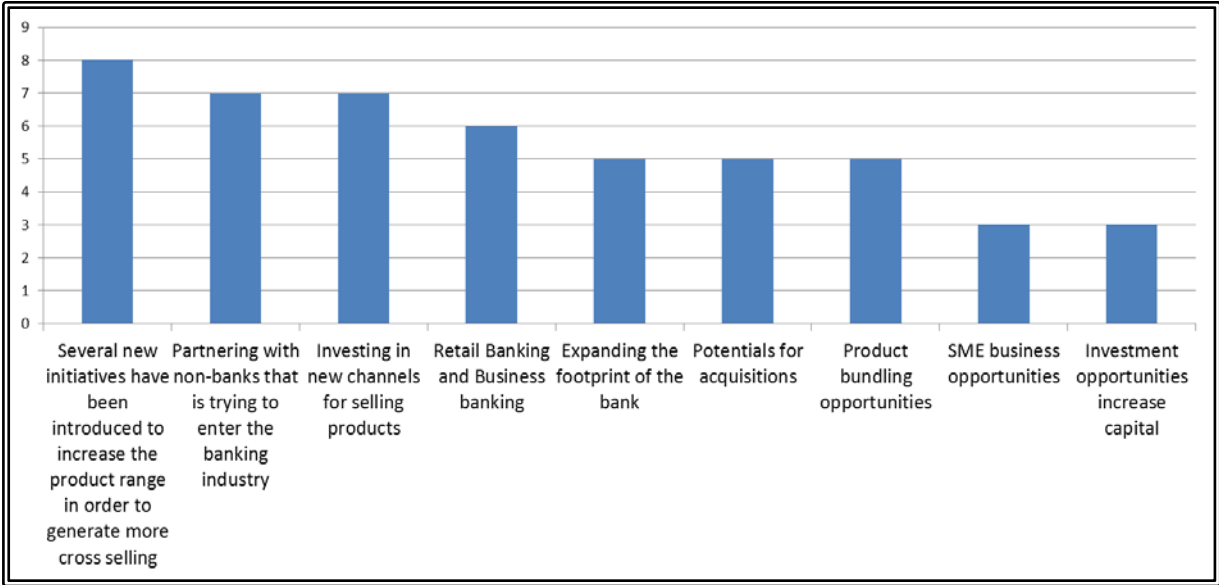


**4.3.4 SWOT ANALYSIS: OPPORTUNITIES**

Eight (80%) of the respondents identified that the new initiatives created within the bank would increase the product range offered externally and promote cross-selling of products within the bank. Seven (70%) of the respondents identified the partnering with non-banks as an opportunity. Seven (70%) of the respondents identified the investment in new channels for selling products as an opportunity. Six (60%) of respondents identified retail banking and business banking as an opportunity.

Five (50%) of the respondents identified the expansion of Bank A’s footprint as an opportunity for Bank A. Five (50%) of the respondents identified the potential for acquisitions as an opportunity for the bank. Five (50%) of the respondents identified product bundeling as an opportunity for the bank. The opportunity with product bundeling was that the bank could offer more than one product to a customer at a reduced price. Three (30%) of the respondents identified attracting small and medium businesses (SMEs) as an opportunity for the bank.

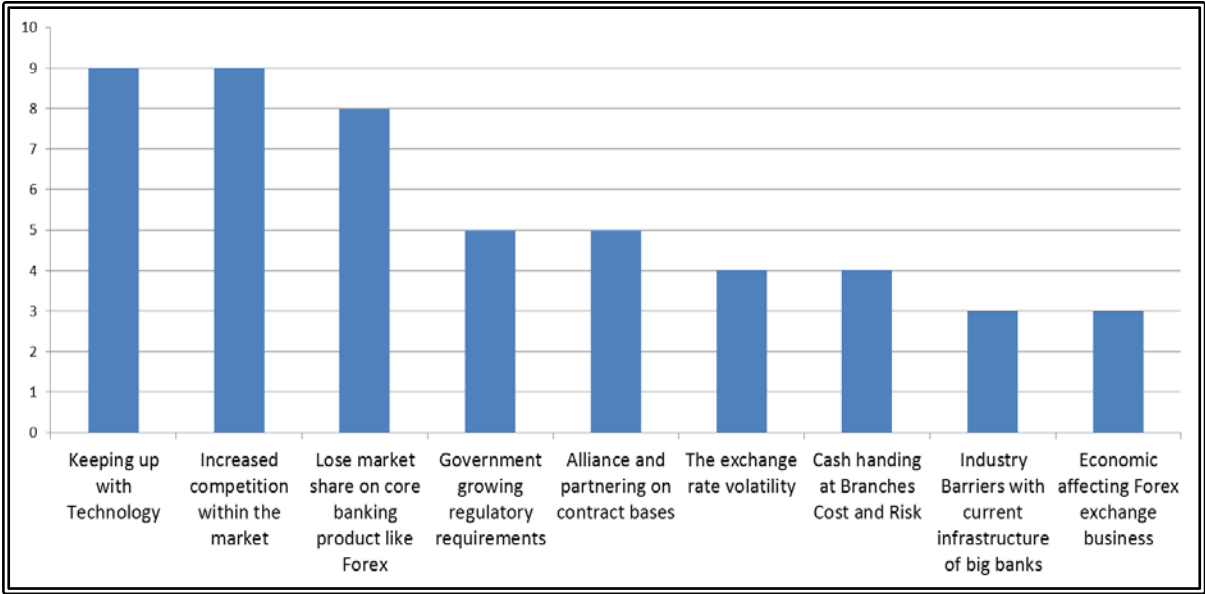
**Figure 4.4: Opportunities identified by respondents**



**4.3.5 SWOT ANALYSIS: THREATS**

When considering the external threats to Bank A, the majority of respondents identified the problem of Bank A not keeping up with technology as a threat. The majority identified that the increase in competition within the market was a threat to Bank A and losing market share on core banking products was increasing. Five (50%) of the respondents identified that the increase in governmental regulation requirements could be a threat to Bank A. Five (50%) of the respondents identified the alliance or partnering with non-banks as a threat due to short-term income and impact on current processes within the bank. Four (40%) respondents highlighted the exchange rate volatility as a threat to Bank A. Four (40%) of the respondents identified that cash-handeling in branches is costly and the risk of handeling such cash as a threat to Bank A. Three (30%) of the respondents indicated that the current barrier to entry into a new market was costly, i.e. to establish the required infrastructure comparable with that of the “big five” banks can be a threat to the bank. Three (30%) of the respondents highlighted that the current economic climate negatively affected the bank’s growth.

**Figure 4.5: Threats identified by respondents**



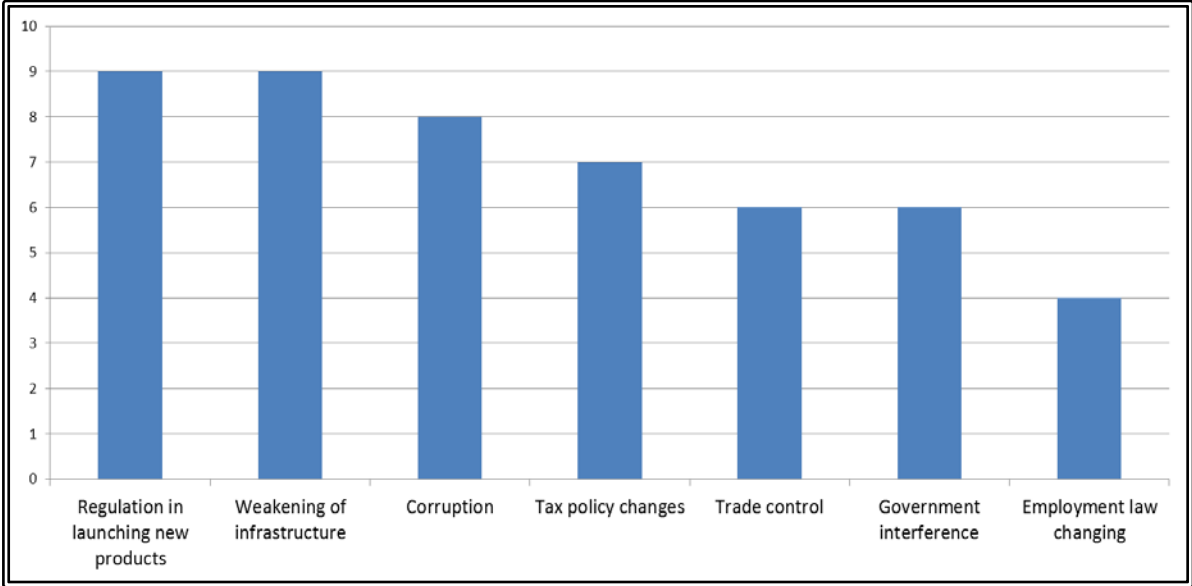
The results of the questions pertaining to the PEST analysis raised in the questionnaire are presented next.

**4.3.6 PEST ANALYSIS: POLITICAL FACTORS**

The majority of respondents identified that political obstacles pertaining to i) regulation in the launching of a new product in the market, and ii) the weakening of infrastructure affects the bank from a political point of view. Eight (80%) of the respondents identified that corruption affected the bank from a political point of view. Seven (70%) of the respondents identified that changing tax policies affects the bank. Six (60%) of the respondents identified that trade control affects the bank. Six (60%) of the respondents identified that government interference affects the bank. Four (40%) of the respondents identified that changes in employment law affected the bank.

The majority of the respondents concluded that the political environment would negatively affect the growth of Bank A.

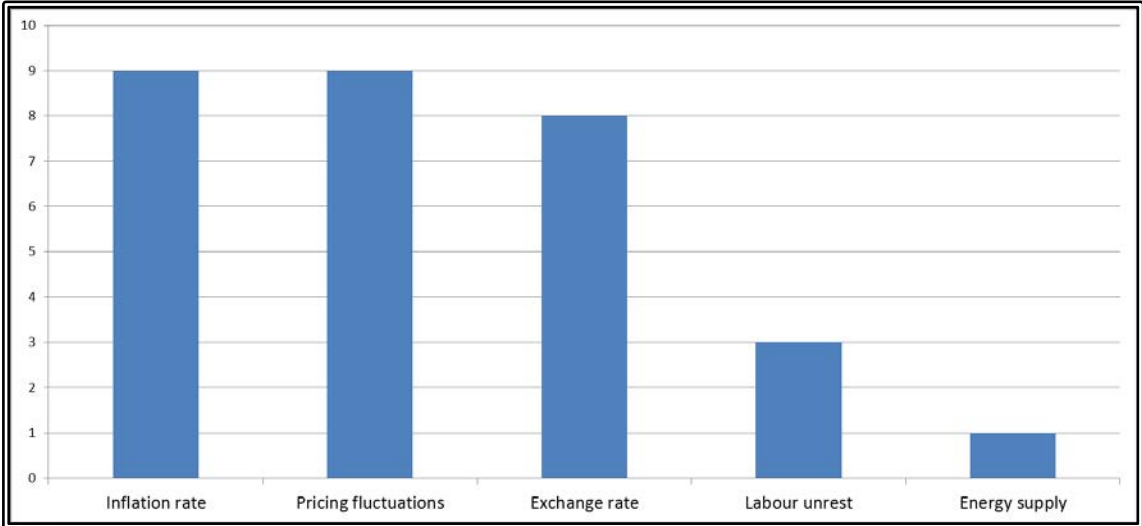
**Figure 4.6: Political obstacles identified by respondents**



**4.3.7 PEST ANALYSIS: ECONOMIC FACTORS**

The majority of the respondents identified that inflation, exchange rate and pricing fluctuations affected the bank’s performance most. Three (30%) of the respondents identified that labour unrest negatively affected the bank. One (10%) of the respondents mentioned that energy supply negatively affected the bank’s environment.

**Figure 4.7: Economic factors identified by respondents**

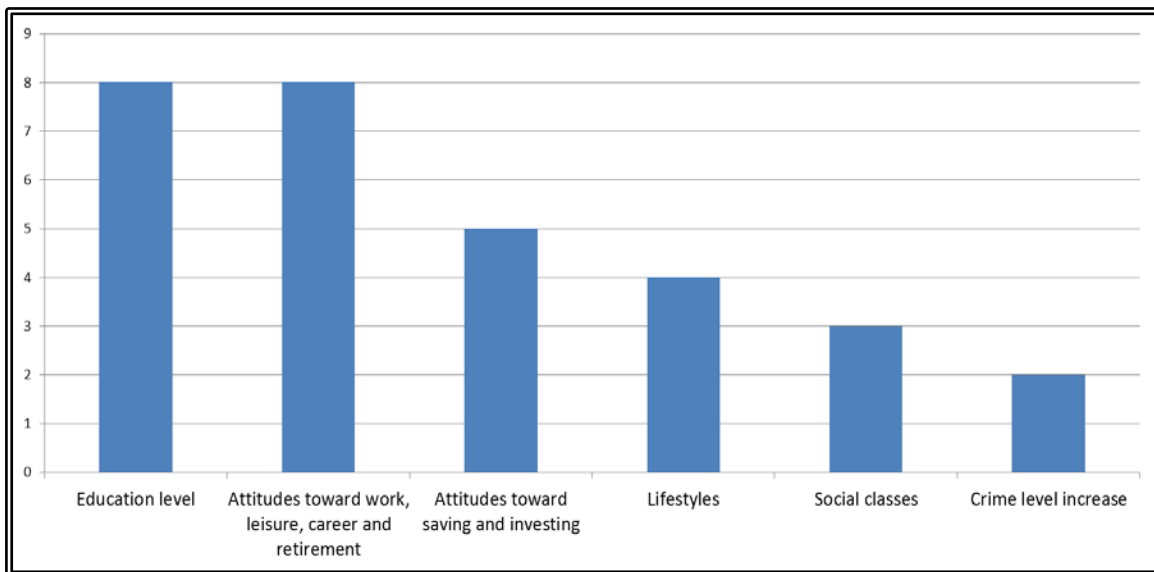


#### 4.3.8 PEST ANALYSIS: SOCIAL FACTORS

The majority of respondents said that the education level of employees negatively impacted the bank from moving into retail and business banking.

Eight (80%) of the respondents indicated that society's attitude towards work, leisure, career and retirement affected the bank. Five (50%) of the respondents highlighted that attitudes toward saving and investing affected the banks. These attitudes could be either positive or negative in terms of saving and investing. Four (40%) of the respondents identified that the lifestyle of customers affected the bank when moving into retail banking. Lifestyle of customers and the Living standards measure (LSM) groups would depend on the type of products banks launch in the retail market. Three (30%) of the respondents indicated that social classes as social factors can affect the bank. The increase in crime level was highlighted by two (20%) of the respondents as a social factor that can affect the bank.

**Figure 4.8: Social Factors identified by the respondents**

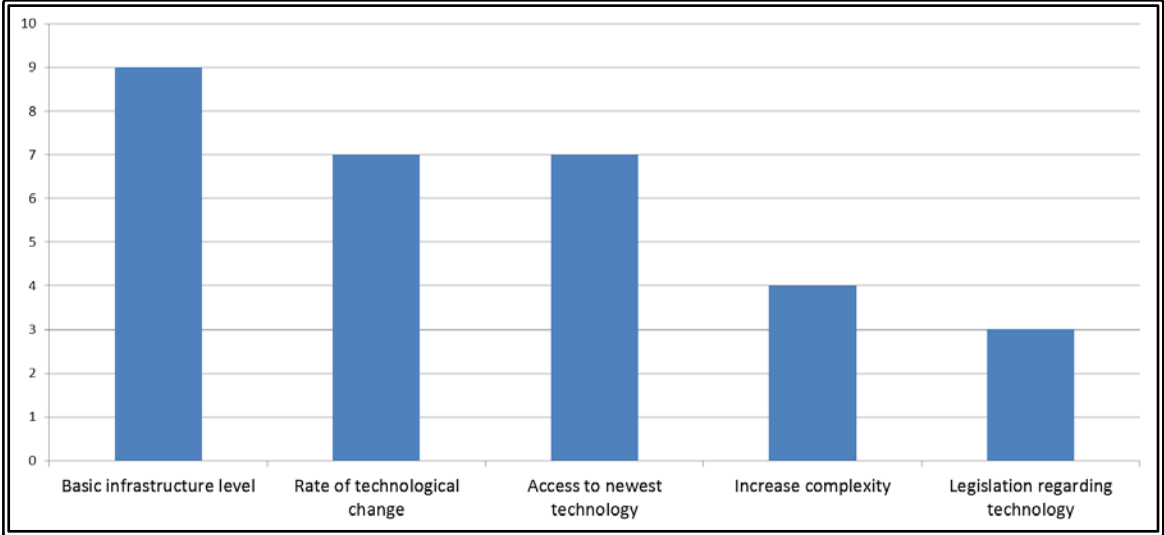


#### 4.3.9 PEST ANALYSIS: TECHNOLOGICAL FACTORS

The majority of the respondents highlighted that the basic infrastructure of the bank's technology affected the bank negatively from moving into retail and business banking. The respondents also identified that Bank A was rather focused on technology systems internally. The respondents furthermore indicated that mobile banking and online banking should be one of the focus areas for technology within

Bank A. The rate of technological changes was highlighted as a technological factor by seven (70%) of the respondents while obtaining access to the latest technology was identified as a possible hindrance for Bank A to move into retail banking.

**Figure 4.9: Technology factors identified by respondents**



**4.4 RESULTS OF THE INTERVIEWS**

The interviews (refer Appendix A, page 68) were conducted with 15 employees from senior management to junior staff members from Bank A. The interviews with the 15 respondents resulted in the following key factors identified as Bank A’s competitive environment split into the SWOT analysis and the PEST analysis.

Respondents were asked to indicate how long they had worked for Bank A. The majority (87%) had been working at the bank for longer than 5 years while only 13% had been working at Bank A between 1 and 5 years. The respondents furthermore had to indicate the business units they represented. The business units represented were: Products 29%, Finance 22%, Risk 14%, Senior Management 14%, Sales 7%, Marketing 7% and HR 7%.

**SWOT Analysis**

- The SWOT analysis consists of internal strengths and weaknesses and external opportunities and threats. The *strengths* of the bank were clearly indicated by the majority of the respondents as i) the size of the bank, ii) the strength of current core niche products, and iii) the ability to react quickly when decisions

had to be made. Respondents also indicated that Bank A was quick to market when launching new products. Due to the size of the bank, the bank has the ability to be more flexible compared to other competitors in the market.

- When considering the *weaknesses* of the bank, the majority of respondents indicated the IT systems as a weakness for the bank. The systems were identified as not functioning as an integrated unit. The design of the systems is very complex and a limited number of staff understands the system's architecture. Furthermore, processes and procedures were identified as a weakness within the bank. Processes are complex and are duplicated within the bank. The processes can be streamlined. In line with the results of the interviews, the respondents identified the "on-boarding" of new customers as a problem. To "on-board" a new customer onto the system, you are required to complete a number of forms whilst moving from department to department. This can be a long and cumbersome process.
- Respondents were asked to indicate the *weaknesses* the bank may face when moving into the retail market. The respondents identified that the lack of infrastructure of the branch's network would be a weakness. This is due to the bank being more a niche bank and the infrastructure was therefore built for that purpose and not for retail banking.
- The respondents were asked to identify or indicate the new *opportunities* for the bank. The majority of respondents identified new channels for selling products as a great opportunity for Bank A.
- The main *threats* were indicated by the respondents as the threat of losing market share in core banking products and the threat of the change in technology for small banks. Bank A is classified as a small bank and the infrastructure of technology is very costly and as such it makes it difficult to compete with the bigger banks.

Additional questions were asked to obtain a better understanding of the views of the respondents on the various elements of the SWOT analysis. Some of the key findings were that the majority of respondents highlighted that products in the market were similar. The area in which a bank can therefore differentiate itself is in terms of the service delivered. Another view that the respondents had included that product was launched without proper research to back it up. As the products are

limited, a great opportunity exists for the bank to improve the current product offering. All the respondents furthermore identified that partnering with non-banks would be an opportunity for Bank A when launching new products. Non-banks such as mobile and technology companies can provide access to their customer base that a bank otherwise would not obtain access to. The “big five” banks have chosen to view non-banks as threats as their customer base is similar.

The second section of the competitive environment of Bank A as identified through interviews will now be discussed.

### **PEST Analysis**

The factors affecting Bank A’s political, economic, social and technological environment were identified through interviews with 15 key respondents. These factors are presented in the same order as the questions asked in the interviews (refer Appendix A, page 64).

- The question was whether the *regulatory* environment in South Africa can be viewed as either a benefit or a limitation. All the respondents indicated that the regulatory environment can be regarded as a benefit, although it is sometimes over-regulated – for example the Financial Intelligence Centre Act (FICA) regulations. The regulatory environment is also identified as costly to comply for small banks, but it does help protect the bank against litigation.
- The respondents were asked to indicate whether the *regulatory* environment would impact the launching of new banking products. All the respondents indicated that the regulatory environment would definitely impact the launching of new products.
- The respondent’s opinion around the bank’s current IT platform was queried. A high number (91%) of the respondents identified the IT platform as an opportunity for improvement by the bank. The IT system was identified as not suitable for new products and new channels. The IT system was regarded as a hindrance for growth of the bank as the IT system was identified as outdated and old. The system was seen only as a front-end system with all other systems outsourced. The lack of integration of systems can thus be seen as a weakness.

- The respondents had to indicate their opinion of the state of South Africa's infrastructure to identify whether this would impact the bank's growth. A high number of respondents (90%) indicated the infrastructure in South Africa as poor. In their opinion the state of the infrastructure limited growth in gross domestic product (GDP), as witness, for example, the electricity problems.
- The focus point of competitor banks is to consider new entrants into the South African market. The question was asked of respondents whether they thought the government would change banking regulations to relax entry requirements into the South African market. All respondents said the government would not change the regulations.
- The question was asked whether the current South African political environment had an impact on the bank. All the respondents said that the credit rating of a bank was directly linked to the credit rating of the country and as such the political environment has a direct impact on Bank A. If the country is not stable due to political issues the banking industry as a whole will be negatively affected by down-grading of the credit rating. This would make it more difficult to conduct business and investors view this as a risk. The black economic empowerment (BEE) rating also affects the banking industry. If the banks' do not have an acceptable BEE rating it is more difficult to acquire new business. The country's political policies also affect the banks' foreign exchange business as the new regulations would limit tourism to South Africa.
- The respondents were asked whether the economic condition of the country had an impact on the bank. All respondents answered affirmatively that due to the weak exchange rate and relatively high inflation the bank would be negatively affected.
- The respondents' opinion about the current lifestyle in South Africa and the impact this would have on the bank was asked. All of the respondents indicated that this would affect the bank. It was identified that if the economy is weak, customers' lifestyles change and they do not have the luxury to travel. The market that the bank would target would also depend on the lifestyle of the customers.
- The respondents were questioned about the technology changes and environment both inside and outside the bank. The respondents indicated that

Bank A could not keep up with technology. The bank has access to technology but the cost is high for such a small bank. The majority of respondents identified that the bank should focus on mobile banking.

- The final question asked the respondents' opinion on whether the bank should move away from its current strategy of focussing solely on being a foreign exchange bureau to the new strategy of expanding into a retail market? More than half (70%) of the respondents indicated that in their opinion the new strategy was a positive move for the bank. In their opinion the new strategy would support more diverse income streams which would assist in the upgrade of the bank's credit rating. The risk would be more evenly spread when revenue was diversified. The growth potential was identified as a great opportunity. The other 30% of the respondents thought that the strategy was positive but found it not to be long-term. In their opinion not all areas of the strategy had been thought through, and the strategy had gaps.

#### 4.5 SUMMARY OF BANK A'S SWOT AND PEST ANALYSIS

A summary of the results of the interviews and questionnaires is provided in figures 4.10 and 4.11.

**Figure 4.10: SWOT analysis**

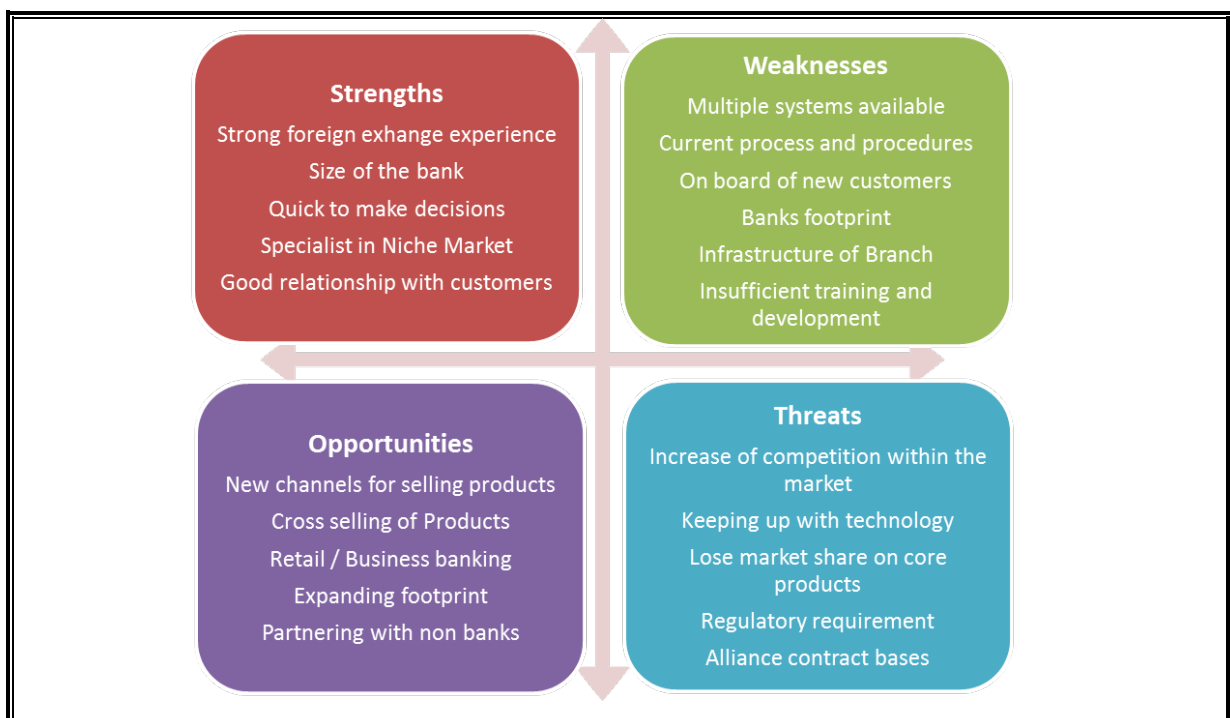
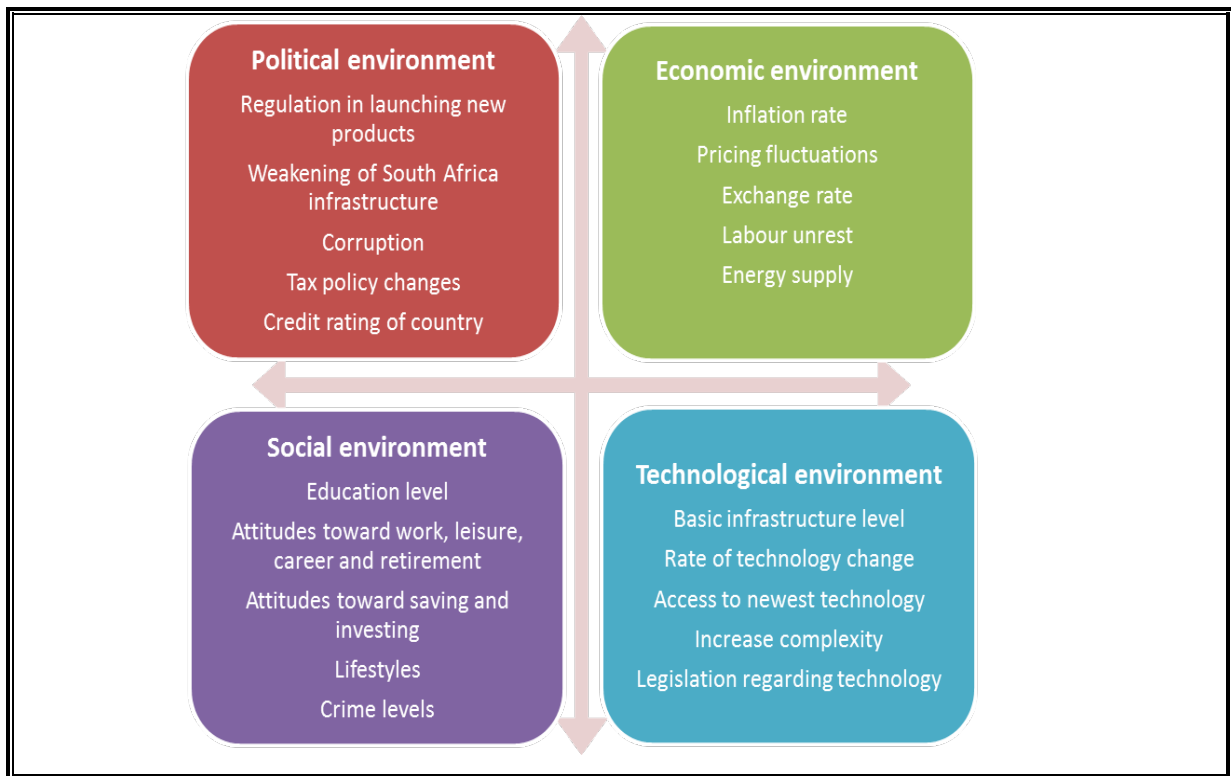


Figure 4.11 summarises the PEST analysis.

**Figure 4.11: PEST analysis**



#### **4.6 SUMMARY**

The aim of this chapter was to address the secondary objective as set out in chapter one (refer paragraph 1.3.2, page 8). The objective and aim were to construct a SWOT and PEST analysis of Bank A's competitive environment by conducting interviews and questionnaires with current staff within Bank A.

The data was analysed based on a process of inspection, cleaning, transforming and modelling data with the goal of discovering information that was useful for this study.

The research was introduced to respondents in order to create awareness. The profile of the respondents taking part in either the questionnaire or interviews was presented. Firstly the data collected for both the SWOT analysis and the PEST analysis through the questionnaire was displayed. This was followed by a presentation of the results of the data collected through semi-structured interviews with 15 staff members. The data from the interviews was split into data for the

SWOT analysis and for the PEST analysis. The results of the competitive environment of Bank A were presented in Figure 4.10 and 4.11.

The final chapter summarises, concludes and provides recommendations of the study.

## **CHAPTER 5**

### **5 SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

The main objective of this study as set in chapter 1 (refer paragraph 1.3.1, page 6) was to identify the competitive environment of Bank A. The preceding chapters focused on the methodology on the study (chapter 2), assessing the competitive environment (chapter 3) and the findings and results of Bank A's competitive environment (chapter 4). The aim of this chapter is to address the final secondary objective as set in chapter 1 (refer paragraph 1.3.2, page 6). The secondary objective is to summarise, conclude and provide recommendations regarding the competitive environment of Bank A.

The chapter will commence with a brief overview of the research conducted, followed by the conclusions and recommendations drawn from the results of the study. Areas for further research will then be presented followed by the limitations of the research. The chapter concludes with a summary.

#### **5.2 OVERVIEW OF THE RESEARCH**

As stated in the introduction, the main objective of this research study as presented in chapter one (refer paragraph 1.3.1, page 6) was to explore both the internal and external environments of Bank A to enable the latter to identify and determine their competitive advantage. The focus firstly was on the current banking environment and the major players in the banking industry. The current competitors' focus areas were identified and considered.

Chapter two was intended to address the first secondary objective as set in chapter one (refer paragraph 1.3.2, page 6). The different research strategies were discussed. The concepts of research design and research methodology were discussed and explained. The researcher identified the different research type available and research type suitable for the study of Bank A. The researcher focused on the importance of validity and reliability of the data collected. The chapter concluded with a focus on ethics in the research process.

Chapter three focuses on the secondary objective of conceptualising the use of the PEST and SWOT analysis in understanding the competitive environment of the South African banking industry (refer chapter 1, page 6) and the position in which Bank A finds itself within this banking industry. Chapter three dealt with the concept of Bank A to adjust its strategy in order to move into a different market segment. The rational strategy model was identified and explained as an applicable strategy model to follow in this study for Bank A. Two key areas were identified within the rational strategy model for this study, the focus point being corporate behaviour using the SWOT analysis and environment competitiveness using the PEST analysis. The PEST and SWOT analyses were discussed as tools that managers can use to analyse the external impact on Bank A's performance and future growth as well as Bank A's current position within the banking industry and the potential future of Bank A.

Chapter four addresses the secondary objective as set out in chapter one (refer paragraph 1.3.2, page 8). The objective was to use the SWOT and PEST analyses as tools in the current environment of Bank A. The objective was to identify the competitive environment of Bank A by conducting interviews and questionnaires with current staff within Bank A. The data was collected for both the SWOT analysis and the PEST analysis in both an on-line questionnaire and semi-structured interviews. The results of the competitive environment were presented in Figures 4.10 and 4.11.

### **5.3 CONCLUSIONS DRAWN FROM THE RESULTS**

Based on the results and findings previously discussed and presented, the following conclusions can be drawn:

- The research has highlighted that the internal and external environment of any bank can be very complex and dynamic. It can be concluded that the respondents' experience within their specific internal environments of Bank A contributes to the perceived strength and weaknesses of Bank A. On the other hand, the external environment is more complex as it is influenced by indirect factors as opposed to direct factors as is the case within the internal environment. As the data-collection sample was selected from a number of

different areas within the bank, it assisted in identifying key drivers from both the internal and external competitive environment.

- The results indicated that the major **strength** within Bank A is the experience gained by operating in its niche market. With strong skilled staff focusing on the niche market the bank's position in the market is a major strength for the bank. The size of the bank is furthermore a strength for the bank. As the bank is relatively small, it is able to quickly and effectively react and respond to change. Moreover, the bank has solid relationships with its current customers.
- The findings indicated that Bank A's **weaknesses** are mainly the multiple systems that it has available and the lack of integration of the IT systems. The time it takes to record and activate ("on-boarding") new customers was revealed as a weakness. This is the result of a great many documents that have to be completed combined with the involvement of different departments to "on board" a new customer. Another identified weakness is located within the processes and procedures in the bank. The process flow is not always clear and this results in duplication of work.
- Through the data collected during interviews and questionnaires it was revealed that the current technology within Bank A was both a key **weakness** and also a great **opportunity** for the bank to focus on. It was identified that the bank's current technology was not suitable for moving into retail banking and increasing channels within the bank.
- New initiatives developed internally but offered externally are regarded as an **opportunity** to increase the product range and cross-selling of products. The research also revealed that partnering with non-banks creates an opportunity for the bank to attract new customers. Investing in new channels has been identified as another key focus area for the bank.
- The biggest **threat** for the bank was identified as the necessity to keep pace with technological developments. New IT platforms and channels are a key focus area for competitors (as discussed in chapter 3, page 46). The development thereof by competitors will result in more pressure and an even greater threat to Bank A's IT technology and channels. The increased competition and loss of market share in terms of core products is another threat to the bank. More and more banks are considering ways to increase and diversify its revenue. As the

“big five” banks already have the required infrastructure combined with years of market experience, this can be a threat to the smaller banks within the banking industry.

- The expertise of key management has been identified as a strength. Bank A has dedicated staff members tasked with driving the mission and objectives of the bank’s vision. The managers within the bank have been identified as a strength for Bank A.
- Education and training within the bank were revealed as areas that could be improved upon.
- It was, however, difficult to identify Bank A’s competitors and there was furthermore uncertainty about how to benchmark Bank A against such competitors.

The following section presents the recommendations made based on the findings of the study.

## **5.4 RECOMMENDATIONS**

Based on the conclusions drawn above, the recommendations can be categorised and presented as follows: i) general, ii) internal environment, and iii) external environment.

### **5.4.1 GENERAL RECOMMENDATIONS**

It is recommended that Bank A regularly conduct an assessment of the bank’s internal and external environment. This research will assist Bank A in making strategic decisions on key areas within the bank. It is furthermore recommended that such research should form part of the strategic development of Bank A. The bank can set strategic goals and objectives based on the findings of the competitive environment.

### **5.4.2 INTERNAL ENVIRONMENT**

It is recommended that the bank invests in an objective assessment of the current processes and procedures within the bank. The aim thereof should be to simplify the current processes and procedures in order to reduce the time taken and the complexity involved in such processes and procedures.

One identified weakness that should receive urgent attention is the “on-boarding” of new customers. It is recommended that Bank A should start with a project to review and change the process of capturing and activating customers on the bank’s systems.

It is furthermore recommended that the bank should embark on developing and presenting training programmes to its staff members to increase the knowledge within the bank and the envisioned growth areas.

### **5.4.3 EXTERNAL ENVIRONMENT**

Based on the findings of the factors influencing the external environment of Bank A, it can be recommended that Bank A should strategize and explore the possibilities and advantages of new channels for the bank. In line with the possibilities and opportunities identified Bank A should invest in technology upgrades in these channels. As these new channels remain a key focus area for other banks, it will become an even bigger threat in the future for Bank A.

Based on the final conclusion presented under paragraph 5.3, it is recommended that the bank should identify its main competitors by conducting research on them. This will enable the bank to benchmark its performance against such competitors and identify areas for improvement as well as identifying Bank A’s competitive advantage.

The suggested recommendations can be implemented by Bank A to address the concerns identified both internally and externally. The next section deals with the areas for further research.

### **5.5 AREAS FOR FURTHER RESEARCH**

For future studies, the rational strategy model, as discussed and presented in chapter 2 (refer paragraph 1.1.1, page 2), can be used in its entirety to establish a corporate strategy for Bank A. The rational strategy model consists of eight components and the focus of this study was on two of the components namely i) corporate appraisal, and ii) environmental analysis. Future research could focus on the other six components of mission and objectives, position audit, strategic option generation, strategy evaluation and choice, strategy implementation, and review and controls.

## **5.6 LIMITATIONS OF THE RESEARCH**

As this study followed a case study approach, the findings and results of the study cannot be generalised. However, much of the findings of the external environment can be used by any South African bank.

It was furthermore assumed that participants have a good understanding of the bank's internal and external environment. The findings are therefore based on the participants' perceptions and not facts. This limitation is, however, mitigated by the participants representing various departments within the bank and the many years of experience the participants have. Another limitation to be considered is that the external environment is constantly changing making it difficult to anticipate developments and set performance measures within the bank.

## **5.7 SUMMARY**

The main objective of this study was to explore the competitive environment of Bank A to enable the latter to identify and determine its competitive advantage. In this chapter a brief overview of each chapter was provided. The PEST analysis was identified as a tool to analyse the external environment of Bank A. The SWOT analysis on the other hand can be utilised to identify both the internal and external environment of Bank A in order to focus on establishing its competitive advantage. The SWOT analysis therefore assists Bank A with viewpoints on its current position within the banking industry and the potential future of Bank A.

A number of conclusions were made on the findings of the study while the results indicated that the internal and external environment can be very complex and dynamic. The results revealed that the main strength within the bank is the experience it has gained in its niche market. The weaknesses were identified as the multiple IT systems available within the bank and the lack of integration of such systems. Education and training within the bank need improvement. The opportunities and threats are closely linked to the strengths and weaknesses identified. When considering the external environment of Bank A, it was found that the competitors of Bank A were difficult to identify and how to benchmark against such competitors.

A number of recommendations were made to Bank A based on the above conclusions. These include that Bank A needs more regularly to conduct a competitive analysis of its internal and external environments. The areas for further research were identified and the limitations of the study outlined.

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## **APPENDIX A: SEMI-STRUCTURED INTERVIEW**

**The process was discussed with the interviewer as well as the objectives of the study.**

The following open-ended questions were asked:

### **General**

- In which department do you work?
- How many months/years have you worked with the bank?

### **SWOT analysis**

- What, in your opinion, would be the bank's current top three greatest internal strengths? Rank these internal strengths.
- What, in your opinion, would be the bank's current top three greatest internal weaknesses? Rank these internal weaknesses.
- What, in your opinion, would be the current top three greatest external opportunities for the bank? Rank these external opportunities.
- What, in your opinion, would be the current top three greatest external threats to the bank? Rank these external threats.
- What is your opinion about the current product offering within the bank, for example the bank can offer debit cards to customers but not credit cards or home loans?
- What is your opinion about the current product offering within the South African banking industry for example the five largest banks can offer customers a credit card, debit card, home loan and vehicle finance?
- Do you see non-banks as a threat of opportunity? If so, motivate.
- Would you launch a product such as a credit card or business banking in the bank?

### **PEST analysis**

- What in your opinion are the benefits/limitations of the South African banking industry's regulatory environment?

- Does the regulatory environment impact the launching of a new banking product? If so, motivate.
- What is your opinion around the bank's current IT platforms for example we can offer internet banking but not mobile banking?
- Do you think the bank's IT platform creates a competitive advantage above our competitors?
- What, in your opinion, is the importance of having different channels for selling banking products?
- What in your opinion is the state of the South African infrastructure?
- Do you foresee government changing banking regulations? If so, what, in your opinion, will be the impact thereof?
- Would the current South African political environment have an impact on the bank? If so, motivate.
- Would the rapid change in technology have an impact on the bank? If so, motivate.
- Would the current economic conditions have an impact on the bank? If so, motivate.
- Would the current lifestyle in South Africa have an impact on the bank? If so, motivate.
- In your opinion, does labour unrest affect the bank? If so, motivate.
- In your opinion, does the strength of the Rand against other currencies affect the bank? If so, motivate.
- In your opinion, will the inflation rate affect the growth of the bank? If so, motivate.
- In your opinion, does the crime level in South Africa affect the bank? If so, motivate.
- What are your perceptions about the lifestyles of South Africans? Motivate.
- In your opinion, what is the state of the bank's technological environment?
- Technology changes fast. In your opinion, do you think the bank is keeping up with technology changes?
- In your opinion, do you think the bank has access to the latest technology?
- What is your opinion about mobile banking for the bank? Motivate.
- In your opinion, how easy is it to access data and information in the bank?

- In your opinion, should the bank move away from its current strategy of focussing solely on a foreign exchange bureau to the new strategy of expanding into a retail market?

## APPENDIX B: QUESTIONNAIRE

### PART A: STAFF MEMBER'S INFORMATION

Survey: To determine factors influencing a/the Bank's transition from status quo to Retail Banking

The competitive environment in the banking industry: A South African case study

**\*Required**

**In what business unit do you work? \***

- Product
- Finance
- IT
- Marketing
- Back office
- Sales
- Risk
- Management (Exco)
- HR
- Other

**What is your gender? \***

- Male
- Female

**What is your highest qualification? \***

- High School
- College diploma
- Bachelor's degree
- Honours degree

- Master degree
- Professional qualification

**How long have you been working at this Bank? \***

- Less than one year
- Less than three
- Less than five years
- More than five years

**How long have you been working in the Banking industry? \***

- Less than one year
- Less than three
- More than five years

**PART B: Strategic planning using “SWOT” analysis**

Any company undertaking strategic planning must at some point, assess its strengths (S) and weaknesses (W). When combined with an inventory of opportunities (O) and threats (T) within or beyond the company’s environment, the company is conducting a “SWOT” analysis: establishing its current position in light of its strengths, weaknesses, opportunities and threats.

**Select 5 possible STRENGTHS of the Bank \***

Please select the most suitable option/s

- Strong Foreign exchange experience
- More adaptable to system changes
- Size of the Bank - smaller and more agile
- Dedicated members who focus on core business areas
- Brand reputation and familiarity
- Good relationships with current Forex customers
- New product launching less red tape - quicker to market

- Ability to innovate
- Quick for making decisions

**Select 5 WEAKNESSES of the bank \***

Please select the most suitable option/s

- On boarding of customers time
- Multiple Systems available within the bank
- Lack of funding for development
- The current infrastructure not suitable for moving into new markets
- Current process and Procedures in the bank
- Current infrastructure at branches
- Limited funds/allocation to Marketing budget
- Insufficient training & development
- Not providing traditional banking
- Opportunities lost due to niche market focus

**Select 5 Opportunities of the bank \***

Please select the most suitable option/s

- Partnering with non-banks that is trying to enter the banking industry
- Retail Banking and Business banking
- Several new initiatives have been introduced to increase the product range in order to generate more cross selling
- Expanding the footprint of the bank
- Investing in new channels for selling products
- Potentials for acquisitions
- Product bundling opportunities

- SME business opportunities
- Investment opportunities increase capital
- Government sector
- Transit opportunities

**Select 5 Threats of the bank \***

Please select the most suitable option/s

- The exchange rate volatility
- Government growing regulatory requirements
- Industry Barriers with current infrastructure of big banks
- Lose market share on core banking product like Forex
- Cash handing at Branches Cost and Risk
- Increased competition within the market
- Alliance and partnering on contract bases
- Economic affecting Forex exchange business
- Keeping up with Technology

**How would you categorise Product offering within the Bank? \***

- Strength
- Weakness
- Opportunity
- Threat

**How would you categorise non-banking companies like mobile companies and IT companies in the banking industry? \***

e.g. Vodacom attempting to provide banking solutions

- Strength

- Weakness
- Opportunity
- Threat

**Would you consider launching a product in the market if the bank does not have the product offerings of other Banks? \***

- Yes
- No

**Do you think South Africa is vulnerable to international banks entering the Market? \***

- Yes
- No

**When launching a new product, is the platform very important? \***

Reference to the current IT system capability

- Yes
- No

**What do you think the banks platform can be seen as? \***

Reference to the current IT system capability

- Opportunity
- Threat
- Strength
- Weakness

**When launching a new product are the channels very important? \***

e.g. Online or Mobile banking, Branches, ATM etc.

- Yes

- No

**What do you think the banks channels can be seen as? \***

e.g. Online or Mobile banking, Branches, ATM etc.

- Opportunity
- Threat
- Strength
- Weakness

## **2. PART C Strategic planning using “PEST”**

PEST is an analysis of the political environment, economic environment, social environment and technological environment of an organisation’s external environment that can affect performance. These forces can create threats and opportunities (Rothaermel, 2012).

**Select 5 political obstacles that a/the Bank might face in the political environment \***

Please select the 5 most suitable option/s

- Corruption
- Tax policy changes
- Regulation in launching new products
- Trade control
- Employment law changing
- Government interference
- Weakening of infrastructure

**Do you think the political environment will affect the growth of the Bank in the next five years? \***

- Yes

- No

**How important do you think the regulatory and compliance is when launching new products. \***

1 2 3

Very Important	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	Not Important
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**Select the top 3 economic factors that may affect the bank's transition from status quo to Retail Banking \***

Please select the 3 most suitable option/s

- Energy supply
- Inflation rate
- Exchange rate
- Labour unrest
- Pricing fluctuations

**Below is a list of social factors that may affect the bank's transition from status quo to Retail Banking \***

Please select the 3 most suitable option/s

- Education level
- Attitudes toward work, leisure, career and retirement
- Attitudes toward saving and investing
- Lifestyles
- Social classes
- Crime level increase
- Immigration and emigration rates

**Do you think the increasing crime levels will affect the Bank's transition from status quo to Retail Banking? \***

Please select the most suitable option

- Yes
- No

**Do you think education levels will impact the bank's transition from status quo to Retail Banking in any way? \***

Please select the most suitable option

- Yes
- No

**Below is a list of technological factors that may affect the Bank's transition from status quo to Retail Banking \***

Please select the 3 most suitable option/s

- Basic infrastructure level
- Rate of technological change
- Legislation regarding technology
- Increase complexity
- Access to newest technology

**Do you think the Banks IT systems is a focus area for the bank? \***

- Yes
- No

**Do you think the bank should focus on online and mobile banking? \***

- Yes
- No

**Is the bank currently using the following technology? \***

- Intranet communications
- Online Banking
- Mobile banking in any of the products
- Databases internal
- Databases external

Thank you for taking your valuable time to complete this questionnaire.