Investigating Competitive Advantage in Banking Industry Based on Porter’s Generic Strategies: IRANs Newly-Established Private Banks

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ABSTRACT

Main objective of this article is investigating the role of Porter’s competitive strategies (differentiation, cost reduction and focus) to increase the competitiveness and eventually gain competitive advantage. This study is a cross-sectional survey that is conducted in 2017. The study population is 221 CEOs (senior managers) in 99 Branches of 4 private banks in IRANs provinces Tehran (Capital of Iran), Qazvin and Isfahan as 3 of the most monetary turnovers. The research tools are a questionnaire containing demographic and specific information. To analyze the data, an SPSS statistical software is used and several statistical tests are used in the testing of the hypothesis and research goals. Finally, the impact of each dimension of the strategy to increase competitiveness is assessed. Also, each dimension is ranked according to influence; respectively differentiation strategy, focus strategy and cost reduction strategies. Considering banks multiplicity and results, special invest on differentiation strategy reaching competitiveness advantages to escape Red-Ocean in this industry is necessary. JEL Classification Codes: M13, G24, G21, F14.

KEYWORDS

Competitive Advantage, Cost Reduction Strategy, Differentiation Strategy, Focus Strategy, Porter Generic Strategies

1. INTRODUCTION

Strategies used in the organization, have a great effect on their performance, in a way that some believe that choosing and implementing strategies will achieve better performance for the organization (Abdolshah, Moghimi, Azin, & Najafian, 2016). These strategies play an important role in order to gain competitive advantage. A firm will gain competitive advantage when it provides more value than expected for the available resources (Barney, 1991). Better performance of an organization against competitors can be considered a competitive advantage. Given the particular importance that large organizations around the world are allowed to develop strategies, indicates that the many benefits lie in strategy. (Porter, 1985). In other words, some believe choosing and implementing better strategies leads to achieve better performance for the organization (Gupta, Czernik, & Sharma, 2001).

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Banks are not exempt from this reality and to their survival need to have proper strategy to achieve competitive advantage. (Kasman & Carvallo, 2014). Because of the multiplicity of banks, creating Red Ocean is undeniable (Moghimi, Khatibi, & Abdolshah, 2016). And this fact reflects fierce competition between both private and governmental banks. The competition is like a double-edged sword that can either undermine the profitability or improve the organization (Abdolshah, Moghimi, & Khatibi, 2017). With this interpretation, private banks are more vulnerable and for their survival is better to adopt appropriate strategies. Organizations are always looking for how to gain a competitive advantage in uncertain and rapidly changing environments (Dobni & Luffman, 2000). Therefore, choosing an appropriate strategy to gain competitive advantage is important. For this purpose, using Porter’s generic model (cost leadership strategy, focus strategy, differentiation strategy) is offered.

In this study, at first the significance of each dimensions of Porter’s generic model with competitiveness is investigated and then the intensity of influence each dimension and indicators is surveyed. This research is appropriate to adopt appropriate strategies in such a competitive environment. In other words, CEOs at private banks can benefit to advancing their strategic plans for gaining competitive advantage.

2. THEORETICAL AND LITERATURE REVIEW

2.1. Theoretical

The many definitions of the concept of strategy essence are as follows:

A plan to achieve organization’s long-term goals that matches resources with environmental changes (Håkansson & Snehota, 1989). Formulating a competitive strategy meant to provide a way for competitiveness in business, setting goals and implementing policies to achieve the goal (Porter, 1998). To measure and distinguish the differences and similarities of strategies, we can use typology which will help to understand and concentrate information and also explain the heterogeneity of functions (Nandakumar, Ghobadian, & O’Regan, 2011). Hence, we deal with certain typologies of generic strategies below.

2.1.1. Generic Strategies of Miles and Snow

Miles and Snow identified four main species strategy in 1978 which include:

1. Prospectors who are constantly trying to make use of market opportunities and offer new products.
2. Defenders who attempt to gain part of a total market so that keep an aggregate of products and customer for themselves.
3. Analysts who are in between the prospectors and defenders and use the strengths of both groups.
4. Passives who give no specific answer to entrepreneurial questions (Slater & Olson, 2000).

2.1.2. Porter’s Generic Strategies

Porter’s generic strategies model emerged several years after Miles and Snow. Porter said that companies to overcome competitive forces and getting ahead of competitors, can adopt three types of strategies. Below, you see a definition of each and Figure 1 shows the advantages and goals of Porter’s generic strategies.

1. This strategy is a way to achieve cost leadership through a series of functional solutions that are designed to achieve this goal.
2. Looking to make a difference in delivering goods and services in terms of design, brand, technology, after-sales service delivery networks, so that buyers understand the difference between these products with those of competitors.
3. The strategy focuses on a specific group of buyers, part of the production line or part of the geographic market.
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