

# A Survey on Strategic Competitive Position of Nepalese Banking Industries

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**Abstract :** *The paper examines strategic competitive position of the Nepalese banks using survey technique in Kathmandu valley. The total seventy questionnaires were collected out of one hundred and four questionnaires distributed to the manager level to officer level employees of the banks, i.e., 67 per cent responses rate. The paper finds that the most of banks have given emphasis to the nationwide branch networking and reliability/ safety position, less important to the position of extra service and the staff advantage position respectively. It states that the number of branches of the banks will increase through out the nation. Similarly, the Nepalese commercial banks need to assure their customers regarding the greater safe banking position.*

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## I. INTRODUCTION

Nepalese banking industry has been growing significantly since last one and half decade. The liberalization banking and monetary policies of the government have led extra-attraction in this sector. The industry has become much composite and competitive. By nature there are three types of players' viz. Public, private and joint venture banks. Due to globalize scenario the banks of the industries are on throat cut competition. There is compulsion to formulate effective strategies to run the business of these banks. Competitor analysis in this context has become one of the basic tools to reconfiguration banking policies, plans, programmers, strategies and services. The purpose of the paper is to understand the Strategic Competitive Position of Banking Industries in the context of Nepal.

Strategic competitive position is to understand and predict the rivalry, or interactive market behavior, between firms in their quest for a competitive position in an industry. Toward this end, researchers have examined factors that influence competitive responses

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and their ensuing performance implications (Chen, Smith, & Grimm, 1995) and patterns of entry into and exit from rivals' markets (Baum & Korn, 1990). Several streams of research have addressed, directly or indirectly, the question of competitive position for firms within an industry. Strategy researchers have drawn extensively from industrial organization (IO) economics (Barney, J.B., 1986) which holds that firms that exist in the same industry are de facto competitors. Intensity of rivalry, one of Porter's (1980) well-known five forces driving competition, has remained mainly a theoretical construct confined to the industry level. In terms of analyzing firms competing in an industry, the strategic-group approach (Barney & Hoskisson, 1990; McGee & Thomas, 1986) is by far the most popular and relevant. However, researchers who use this approach have largely ignored the market context in which competitors carry on their battles and the extent to which two firms actually compete directly against each other.

In regard to the organisation of subsequent part of the paper, Section II presents a brief review of previous studies regarding strategic competitive position. Likewise, Section III outlines the methodology employed and describes the data used in this paper. Section IV presents the empirical results and finally Section V contains conclusion of the paper.

## **II. REVIEW OF LITERATURE**

This study seeks to provide a conceptual link by proposing two firm- specific, theory-based constructs: the market commonality and the resource similarity between a given pair of competitors. Taking the firm as the basis for analysis, we argue that each firm has a unique market profile and resource endowment and that a comparison with a given competitor along these two dimensions will help to illuminate the competitive relationship between them and to predict how they may attack (or respond to) each other in the market. This firm-specific conceptualization also leads to the idea of competitive symmetry, the notion that a given pair of firms may not pose an equal threat to each other. The present study offers a number of propositions that use market commonality and resource similarity to predict competitive attack and response. The study also proposes measures to assess market commonality and resource similarity along with a demonstration of how such measures could be implemented.

The competitive strategy is based on relative efficiencies against direct; obvious and existing competitors can be far too simplistic and may indeed attract new entrants into the market, if they can identify a new method of distribution, etc, where they have a sustainable advantage. The areas of concern for this competitive strategy can be summarized using the Porter model and reproduced current and potential competitor analysis.

One of the distinguishing features of strategic management accounting is the degree to which the subject concentrates on providing competitive financial information on other businesses. The main area of interest is obviously information on competitors; it also considers briefly the other elements of value chain, such as, suppliers and direct customers, as a better understanding of their possible alternative competitive strategies can be of great assistance to a business in selecting its own strategy.

Banking competition is expected to provide welfare gains by reducing monopoly rents and cost inefficiencies, favouring a reduction of loan rates and then an increase in investment (Anca, Laurent and Franziska, 2007). These expected gains are a major issue for transition countries in which bank credit represents the largest source of external finance for companies. Competition is measured by the Lerner index on the loan market, using data on loan prices. We find no improvement in banking competition during the transition period. The study investigates the relationship and causality between competition and efficiency.

The study of competitor analysis and of interfirm rivalry occupies a central position in strategy (Porter, 1980). Therefore, a basic understanding of each subject, as well as an integrated comprehension of both, is of paramount importance. Intensity of rivalry, one of Porter's (1980) well-known five forces driving competition, has remained mainly a theoretical construct confined to the industry level. In terms of analyzing firms competing in an industry, the strategic-group approach is by far the most popular and relevant. Barney & Hoskisson, (1990) has provided a strong theoretical support in the field of competitive strategy. The research recognizes a distinction between the concept of interfirm rivalry, which emphasizes the conduct of individual firms, and the general conceptualization of competition, which focuses on properties of the industry or market structure. There results suggest that using the individual competitive move as the unit of analysis, rivalry can be analyzed by studying the exchange of moves and countermoves.

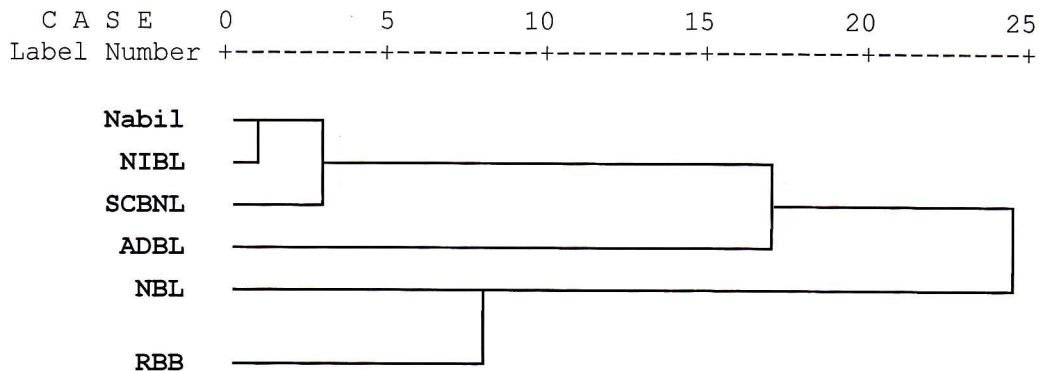
Mingl-jer Chen (1998) bridges two important subjects in strategy: competitor analysis and interfirm rivalry through a refined conceptualization of strategic competitive, the paper explores two firm-specific, theory- based constructs: market commonality, developed from the literature on multiple-point competition, and resource similarity, derived from the resource-based theory of the firm. The studies of Hannan & Freeman (1989), Scherer & Ross (1990) and Tirole (1988) explored the relationships between firm-specific competitive conditions and patterns of interfirm rivalry. Competition may be studied at multiple analytical levels. Researchers have paid little attention to how the market positions of firms affect the dynamics of such strategic behavior, instead treating competitive conditions as properties of markets, industries, or populations. Bernhardt (1994) and Rouach and Santi (2001) described the primary benefits of consequent to the weaknesses of competitors, and of external opportunities and threats. The assessment of competitors' strengths and weaknesses was said to serve two functions. Competitors' strengths could be undermined and weaknesses exploited.

As per the previous studies the competitor response was found to be faster in markets characterized by higher growth rates. Similarly the growth markets are important, and competitors are likely to feel the need to take hasty action in response to a new entrant. The review showed that different strategies, including very different channels of distribution are used to identify competitors for finding other firms who provide alternative services to the same markets and how to compete with new competitors by forcing existing firms to be more effective and efficient and to learn.

### III. RESEARCH METHODOLOGY

The study uses primary data which were generated through structured questionnaire. The questionnaire divided into two parts; profile of respondents and 5 Likert scale on strategic competitive position of Nepalese banking industry. The total seventy questionnaires were collected out of one hundred and four questionnaires distributed to the manager level to officer level employees of the banks. The questionnaire mainly contained personal profile of the respondents, the strategic position and the responses of the respondents are very useful to access the strategic competitive position of the banks.

The study on strategic competitive position of banking industry has selected six firms on the basis of firm size, establishment date and business volume. Therefore Nepal Bank Limited, Rastriya Banijya Bank, Nabil Bank Limited, Nepal Investment Bank Limited, Standard Chartered Bank Nepal Limited and Agriculture Development Bank are selected. Among them, cluster analysis is used to select the competitors as per the aforementioned variables.



The above cluster analysis (Dendrogram) shows that there are two identical groups of banks i.e. one group consists Nabil Bank Limited, Nepal Investment Bank Limited, Standard Chartered Bank Nepal Limited and Agriculture Development Bank and another group contain only Nepal Bank Limited and Rastriya Banijya Bank. It clears that the Nepal Bank Limited and Rastriya Banijya Bank are identical in nature.

### IV. DATA ANALYSIS

#### *Background information of respondent*

The initial part of the respondent questionnaire survey was devoted for obtaining individual information of respondents surveyed. The responses to these questions are presented in table 1. The questionnaires were distributed to manager level to officer level of employees of Nepal Bank Limited, Rastriya Banijya Bank, Nabil Bank Limited, Nepal Investment Bank Limited, Standard Chartered Bank Nepal Limited and Agriculture

Development Bank Limited to be conscious of their opinion regarding on strategic competitive position in the Nepalese banking industry. The questionnaire survey strives to explain difference opinion on strategic position. The following information and table consists of detailed profile of respondents.

**Table 1 : Background Information of Respondents**

Variables	Number	Percentage	Variables	Number	Percentage
Gender			Age upto 25	5	7.15
Male	56	80	26-35	25	35.71
Female	14	20	36-45	20	28.57
			46-55	16	22.86
<b>Total</b>	<b>70</b>	<b>100</b>	Above 55	4	5.71
			<b>Total</b>	<b>70</b>	<b>100</b>
<b>Name of bank</b>			<b>Educational level</b>		
Nabil	10	14.29			
NIBL	11	15.72			
SCBNL	8	11.44	Master Degree	52	74.29
ADBL	12	17.12	Bachelor Degree	18	25.71
NBL	15	21.43			
RBB	14	20.00			
<b>Total</b>		<b>100</b>	<b>Total</b>	<b>70</b>	<b>100</b>

*Source : Survey*

Among the respondents, 56 (80 percent) were male and 14 (20 percent) female. The number of respondents by age group were found as 5 (7.15 percent) were up to 25 years, 25 (35.71 percent) between 26 to 35 years, 20 (28.57 percent) between 36 to 45 years, 16 (22.86 percent) between 46 to 55 and 4 (5.71 percent) above 55 years. As regards the educational level of respondents, the majority of person responding to the opinion survey (74.29 percent) holds the Master degree where as number holding the degree of graduate (25.71 percent).

As regards respondents of six sampled banks, the highest number, 15 (21.43 percent) respondents were from Nepal Bank Limited, followed by 14 (20 percent) respondents from Rastriya Banijya Bank and the lowest number of respondents 8 (11.44 percent) from Standard Chartered Bank Nepal.

### *Strategic competitive position*

Table 2 shows overall result on strategic position as per respondents view. As per questionnaire survey, the overall rank indicates that most important level of the strategic position are the nationwide branch network, the reliability/safety position, better accessibility, satisfy individual client needs and the least important of the strategic position are the position of extra services and staff advantage position respectively.

**Table 2 : Overall result on Strategic position as per respondents' view**

Description	VS	S	U	W	VW	Mean	Rank
1. The expertise position.	7	31	21	9	2	2.54	5
2. The reliability/safety position.	27	30	8	4	1	1.89	2
3. The innovative/responsive position.	4	29	20	14	3	2.76	8
4. The performance position.	7	31	16	14	2	2.61	6
5. Position of extra service.	3	22	18	22	4	3.03	12
6. The staff advantage position.	4	23	18	20	4	2.96	11
7. Uniqueness in service offering	6	23	16	18	6	2.93	10
8. A superior service through technology	6	24	20	14	5	2.83	9
9. Better accessibility	17	28	16	3	4	2.25	3
10. Nationwide branch network	43	20	4	1	-	1.46	1
11. Satisfy individual client needs	9	34	16	8	1	2.38	4
12. Offer a complete service line	3	29	22	12	2	2.72	7

**Source :** Survey

It is seen that the majority of respondent view on strategic position is nationwide branch network. For this statement, 43 and 20 respondents' responses ranked number one (VS) and two (S) respectively. The second most-favored level of strategic position is the reliability/safety position with 27 and 30 respondents rank number one (VS) and two (S) respectively, least priority on position of extra service, for this statement 22 and 4 respondents ranked number four (W) and five (VW) respectively.

Table 3 presents Ranking of Strategic position as per sampled banks.

**Table 3 : Ranking of Strategic position as per sampled banks**

Description	Rank					
	Nabil	NIBL	SCBNL	ADBL	NBL	RBB
1. The expertise position.	1	3	2	9	4	7
2. The reliability/safety position.	2	1	5	2	2	3
3. The innovative/responsive position.	7	7	6	10	8	10
4. The performance position.	4	2	1	5	7	9
5. Position of extra service.	3	9	3	8	9	6
6. The staff advantage position.	6	4	4	4	10	4
7. Uniqueness in service offering	12	12	10	3	11	12
8. A superior service through technology	10	10	7	11	12	5
9. Better accessibility	9	6	11	7	3	2
10. Nationwide branch network	5	8	12	1	1	1
11. Satisfy individual client needs	8	5	8	6	5	11
12. Offer a complete service line	11	11	9	12	6	8

As per questionnaire survey, the government / semi government bank, i.e., Agriculture Development Bank Limited, Nepal Bank Limited and Rastriya Banijya Bank have given emphasis on nationwide branch network in contradictory private banks, i.e., Nabil Bank Limited, Nepal Investment Bank Limited and Standard Chartered Bank Nepal Limited have given priority to the expertise position, reliability/safety position and the performance position respectively. On the other hand all the banks have given less preference on

uniqueness in service except by Agriculture Development Bank Limited as it provides different services than other. Nabil Bank Limited, Agriculture Development Bank Limited and Nepal Bank Limited have given second priority on the reliability/safety position where as Standard Chartered Bank Nepal Limited, Nepal Investment Bank Limited and Rastriya Banijya Bank have given on the expertise position, the performance position and better accessibility respectively. All banks except Nabil Bank Limited and Nepal Bank Limited provide fourth preference to the staff advantage position.

## V. CONCLUSION

The paper examines strategic competitive position of the Nepalese banks using survey technique. The paper finds that the most important preference is given to nationwide branch networking and reliability/safety position, less important to the position of extra service and the staff advantage position respectively. It implicates that the number of branches of the banks will increase through out the nation. Similarly, the Nepalese commercial banks need to assure their customers about the greater safe banking position.

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