PORTER’S FIVE FORCES IMPACT ON THE PERFORMANCE OF COMPANIES IN THE BANKING INDUSTRY IN GHANA

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Abstract
Despite the favorable climate in the banking sector of Ghana over the last decade, it can still be said of some to be poorly performing in relation to overall level of industry performance and wealth maximization. With the expected fluctuations in performance levels, ability to determine the competition nature and the resulting profitability of an industry is vital to the development of effective strategy in any industry. It is on this premise this study is designed to evaluate the Porter’s Five Forces model impact on banks performance using Eco-Bank Ghana, Barclays Bank Ghana and Fidelity Bank as the case study. The study was explanatory in nature. Primary data was collected through questionnaires from a sample size of 84 management staff. Responses received were analyzed using T-Test and Linear Regression analysis. Empirical findings suggested that, the Five Forces had contributed to the performance of banks in Ghana by impacting on competition and profitability of the industry as a whole. Even though all the five Forces had impacted on company’s performance, the bargaining power of supply had the most impact on the industry performance. It was therefore recommended that, Companies in the banking industry in
Ghana must invest in finding new ways to energy supply rather than relying solely on ECG as major supplier and also invest in new product development since competition in the industry was on product/service innovation.

Keywords: Five Forces, Performance, Competition, Industry, Profitability, Strategy

INTRODUCTION

Businesses around the world are trying to improve their efficiency and maximize their market share by optimizing the opportunities available in the market and handling the problems and challenges. To reach these goals, the managements of businesses should realize that they live within a dynamic external and internal environment which has a lot of variables that affect the company and its market value. In this context, the management analyzes all internal and external factors affecting the company and influence their survival and prosperity. In the same manner, Porter (1979) developed his model Porters Five Forces which is considered as a main framework of strategic planning for businesses. The model helps in evaluating the company’s environment and understanding its competitive position that extends beyond the current rivalry threat. The theory says that competition inside an industry is determined by five forces namely; rivalry of industry competitors, threat of new entrants, bargaining power of consumers, bargaining power of suppliers, and the threat of substitute product (Porter, 1980).

Businesses engineer economic growth and development, but however their operations are directly and indirectly affected by both internal and external forces. The internal environment has been perceived as fairly challenging because it is within the control of the organization, while the external environment on the other hand has been perceived as complex due to it dynamism and being beyond the control of the organization (Desset al., 2006) argued. For the last decade, the banking sector in Ghana has been transformed rapidly. Many foreign banks as well as local banks have opened their doors to changing dynamics, offering various banking services to suit all manner of customers in country.

There has also been tremendous increase in saving as well as microfinance activities with minimum charges. According to Elisante (2005) out that the number of financial institutions has been mushrooming by an alarming speed. For this very reason the players in the banking industry need to consider their competitive positioning so as to reposition strategically. Banks have consistently offered stiff competition to one another as result of globalization and deregulation. Geographical boundaries have been debilitated and have consequent inspire cross-border mergers and acquisition (Arnoud&Thakor, 2000). Despite the favorable climate in
the banking sector of Ghana over the last decade, it can still be said of some to be poorly performing in relation to overall level of industry performance and wealth maximization (Arthur, 2011). With the expected fluctuations in performance levels, robust strategy is perceived to be the determinant of each bank’s performance outcomes whether positive or negative. This has evolved the traditional managerial role to an all-encompassing role requiring strategic thinking, planning, decision making and implementation (Arthur, 2011).

All though researchers have endeavored to analyze the banking sector using the Porter’s five competitive Forces (Samreen, 2014; Arthur, 2011; Kim, 2014), the concept is still yet to be extensively applied the Ghanaian banking sector despite the illumination it brings into the market in terms of positioning and repositioning advantages. It is on this premise this study was designed to evaluate the impact of the Porter’s Five Forces model on company’s performance in the banking sector of Ghana.

LITERATURE REVIEW
Porter’s Five Forces of Competitive Position Analysis was developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organization. This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market.

Threat of New Entrants to the Industry
Threat of new entrants refers to the possibility that the profits of established firms in the industry may be eroded by new competitors. The extent of the threat depends on existing barriers to entry and the combined reactions from existing competitors. The fewer the entry barriers, the higher the threat of new entrants. If a new firm can launch its business with a low capital investment and operate efficiently despite its small scale of operation, it is likely to be a threat. The major barriers to new entries are many including patents and brand identification, high capital requirements also create barrier to entry due to the need to invest large financial resources to compete or risky or unrecoverable advertising and research (Bateman & Snell, 2004). Another factor is the switching costs in cases where a barrier to entry is created by the existence of one-time costs that the buyer faces when switching from one supplier’s product or service to another. Access to Distribution Channels also deters the new entrants due to the need to secure a distribution channel for its products. There are also cost disadvantages independent of size or economies of scale that bars new entrants. The already established industries may have advantages independent of economies of scale through a proprietary
product, favorable access to raw materials and government subsidies (Bateman & Snell, 2004), and also the new-comer anticipation of a sharp retaliation from established competitors can be a barrier to entry (Porter, 1998). It is dangerous for a firm to enter an industry with very high entry barriers (Bateman & Snell, 2004). Brand loyalty makes it difficult for new entrants to venture into a new industry and thus increases the barrier to entry by potential competitors since they may perceive the task of breaking down well established consumer preferences as too costly (Hill & Jones, 2002).

Access to Distribution Channels; Zhe and Sun (2011) notes that distribution channels mean the path through which goods and services flow from vendor or intermediaries to the end consumer, it determines how fast and how wide the product can diffuse (Porter, 1998). The distribution channels normally include wholesalers, retailers, distributors, even the internet, and so on. Porter (1998) point out that because the limitation of the distribution channels, and the existing competitors have tied the distribution channels up, the new entrants are difficult to enter the industry, sometimes they have to establish their own distribution channels.

Government Policy - Competition between firms is restrained by the local government policies and laws, and government plays an indirect role to affect entry barriers. The forms of restraints are many and varied, such as national standards, license requirements, safety regulations, and limitation on access to raw material (Porter, 1998). In different industries the major governmental and legal barriers are different (Grant 2010). Nowadays governments withdraw from business areas. The outcome is an increasing deregulation. Deregulation describes the removal of controls raised by the government on the operation of industries. During the process of liberalization, residual risk is dissolved and thus allows a restructuring of the affected areas. This can cause an incorporation of business relationship, rejection, or outsourcing (Downes, 1998)

Bargaining Power of Buyers
The more open the transactions are, the greater the force of the buyers is, partly because this reduces their costs to seek for and select producers. In the banking industry, the bargaining power of buyers is strong, because there are many firms in this industry; it is very easy to find other supplier in the industry. The power of customers can be described as the “flip side of powerful suppliers” (Porter, 2008). If the buyers have a high market power they are able to push prices downward, prevail better quality or they can force expanded services. These also reduce the profitability of the industry. The Bargaining Power of Buyer is high if the buyers are large, they are able to switch easily to another supplier who maybe are in numbers (Slater & Olson, 2002).
Bargaining Power Suppliers

Generally, this entails assess of how easy it is for suppliers to drive up prices. This is often driven by the quantity of suppliers of each key input, the distinctiveness of their product or service, their strength and control over you, the cost of switching from one product or service to a different, and so on. The less the supplier choices you have, the more powerful your suppliers are. Supplier bargaining power is likely to be high when: the market is dominated by a few large suppliers rather than a fragmented source of supply, there are no substitutes for the particular input; the suppliers customers are fragmented, so their bargaining power is low; the switching costs from one supplier to another are high; there is the possibility of the supplier integrating forwards in order to obtain higher prices and margins (Porter, 2008). This threat is especially high when; the buying industry has a higher profitability than the supplying industry; Forward integration provides economies of scale for the supplier; the buying industry hinders the supplying industry in their development (reluctance to accept new releases of products); and the buying industry has low barriers to entry. In such situations, the buying industry often faces a high pressure on margins from their suppliers (Alkhafaji, 2003). Suppliers can pressurize an industry through price increments or quality reduction of the purchased products. Porter critically acknowledged the five competitive forces that have given shape to every business and every market. These forces establish the strength of a competition and hence the productivity and attractiveness of a business (Porter, 1980).

Threats of Substitute Products / Services

All firms within an industry compete with industries producing substitute products and services because substitutes reduce the potential returns of an industry by placing a ceiling on the prices that firms in that industry can profitably charge. Identifying substitute products involves searching for other products or services that can perform the same function as the industry’s products (Riley, 2012). A threat from substitutes exists if there are alternative products with lower prices of better performance parameters for the same purpose. They could potentially attract a significant proportion of market volume and hence reduce the potential sales volume for existing players. By Porter’s definition, threat of substitute products is the availability of a commodity or a service that the buyer can buy in place of the industry’s product or service.

The availability of a substitute goods and services threat influences the profitability of a sector because buyers can decide to pay for the substitute commodity or service as an alternative to the business’ commodity or service. The presence of close substitute goods and services can turn a sector highly competitive and lower profit potential for
the businesses in the sector. Alternatively, the absence of close substitute goods and services turns a sector less competitive and raises profit potential for the businesses in the sector. A good example of a threat of substitute in the banking sector is telecommunications providing financial services (Chidmi & Lopez, 2007). The banking industry is facing a higher threat of substitute from the telecommunication industry in Ghana with the introduction of the mobile money services. Many customers in Ghana now prefer to save monies on mobile wallets than bank account which is a threat to the banking industry. Telecom companies like MTN, Vodafone Tigo-Aitel are now seen as competitors to the banks with their mobile money services.

**Competitive Rivalry**

Rivalry is the competitive struggle between firms in an industry to gain market share from each other (Hill & Jones, 2007). Intensity of rivalry is the competitive struggle between firms in an industry to gain market share from each other. This force describes the intensity of competition between existing companies in an industry. High competitive pressure results in pressure on prices, margins and profitability for every single company in the industry. This is determined by the number of players of about the same size, number of players with similar strategies, differentiation between players and their products, price competition, market growth rates and barriers for exit.

In pursuing an advantage over its rivals, a firm can choose from several competitive moves: Changing prices - raising or lowering prices to gain a temporary advantage; improving product differentiation - improving features, implementing innovations in the manufacturing process and in the product itself. The firms can equally reposition themselves from the ‘old way’ as the customers perceived them to be. The firms within the industry that will differentiate their products from others will have a unique opportunity to attract customers at a premium price. A good example for this is the way Standard Chartered have sections secluded for their premium customers who do not queue for services. These customers have no time to wait in a queue hence ready to pay any fee for them to be treated differently. Creatively firms should explore using channels of distribution such as using vertical integration or using a distribution channel that is novel to the industry.

Product Differentiation and Switching Costs - According to Porter (1998), product differentiation and the switching costs are of great importance to the intensity of the competition. The more similar are the products offered by rivals, the more willing are the customers to switch among these products and the greater the firms tend to cut prices to promote sales. In the industry where the products offered by rivals are indistinguishable, the price competition is the sole form of competition. In contrast, in the
industry where products offered by rivals are highly differentiated, the price competition is weak, even though there are a large number of firms competing.

Diversity of Rivals – Competing rivals within an industry have to fight to capture the market and thus develop very diverse ideas of how to compete. Zhe and Sun (2011) explains that the competitive rivalry is varied because of the diversification of the origins, objectives, costs and strategies. The intensity of price competition depends on the different strategies (Porter, 1998). Rivalry between competitors in the banking industry occurs because of diverse and number of competitors, or when one or more competitors either feels the pressure or sees the opportunity to increase their competitive position by using tactics such as price competition, product re-introductions and advertising battles. The study of the relationships within the industry must respond to questions about the number of competitors, the growth in demand and sales in the industry, the existence of high barriers for exit from the industry, whether the fixed costs of the sector are high. The intense competition among the market participants in general reduces the average profitability.

The financial service business has been around for years, and just about everyone who desires banking services already has them. Banks lure clients away from competitor banks by providing lower financing, preferred rates and alternative investment services. The banking sector is in a very race to ascertain who can offer both the best and quickest services, however this conjointly causes banks to experience lower returns. They may have an incentive to take on high-risk projects. Within the long run, we are likely to see more consolidation within the industry. Larger banks may opt to take over or merge with another bank instead of spend the cash to market and advertise.

![Porter’s Five Forces Framework](image-url)
Effect of Porter's Five Forces

Porter, (2008), notes that the five forces model helps a company to look beyond its competitors. He notes five competitive forces that can hurt profits: astute customers that can play you and your competitors, powerful suppliers who might constrain your profits by charging high costs, aspiring entrants armed with new capacity and hungry for market share, and substitute offerings that will lure your customers away and rivalry of industry competitors that will bring an industry to its knees particularly where competition is fierce and contend on the price offering.

Porter (2000) asserts that for a firm to learn from the five forces model it should be ready to comprehensively outline its business. It states that, defining the business during which competition takes place is vital for good business analysis, not to mention for developing strategy and setting unit boundaries, to this end he notes that the firm should determine the product and geographical scope and establish the players and phase underneath the five segments listed above. The analysis ought to additionally assess the strength and weaknesses of these competitive forces. It is additionally crucial to know the business profitability and therefore the recent positive and negative developments within the business. A strategist can come up with the strengths and weaknesses of a company and able to create a concept for a stronger position within the industry. The Competitive Forces oversimplified the micro-economic theory by using only five Forces. It provides the opportunity to examine and assess advanced interactions of competitors in an industry in a structured manner (Porter, 1979). The five Forces framework “went beyond a more simplistic focus on relative market rate of growth in determining industry attractiveness” (Grundy, 2006). An extra benefit in line with Grundy (2006) is that the managers set a better focus on the external atmosphere compared to the normal ‘SWOT’ analysis. The goal of the five Forces framework is not solely to assess business gain and attractiveness however also to comprehend the “underpinnings of competition and therefore the root causes of profitability” (Porter, 2008).

Porter (2008) concludes that, the five competitive forces reveal whether or not an industry is really attractive, and they facilitate investors anticipation of positive and negative shifts in the industry structure way before they are obvious. He additionally notes that this deeper thinking regarding competition is a more effective or superior technique to attain investment success than financial projections and trend extrapolation that dominates today’s investment analysis. whereas the proponent of this theory argues that these five forces are the solely or major determinants of success or failure of organizations in the marketplace, there are other scholars who advocate that new product development has the capability of delivering competitive strength(s) to a company within the face of competition. This will be accomplished
through additional value generated from integrating new product innovation, new product pricing, new product placement, new product branding, and new product promotion.

Porter (1980, 1985) recommended some of the basic decisions faced by corporations are primarily the scope of the markets that the company would serve and how the company would compete in the selected markets. Competitive strategies focus on ways in which a company will reach the most advantageous position that it possibly can in its industry (Pearson, 1999). The profit of a company is basically the difference between its revenues and costs.

Therefore, high profitability is achieved through company’s ability to adopt the right competitive strategy in the face of the five forces.

**Competition**

Competition is at the core of success or failure of companies. Competition determines the appropriateness of a firm’s activities that will contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy aims to ascertain a profitable and sustainable position against the forces that determine trade competition (Porter, 2004). Competitive advantage is at the guts of a firm’s performance in competitive markets as these days the importance of competitive advantage might hardly be greater. Companies throughout the world face slower growth as well as increase in domestic and international competitors. To better perceive the activities through which a firm develops competitive advantage and creates stockholder worth, it is helpful to separate the business system into a series of worth-generating activities referred to as the value chain (Porter, 2004). For a corporation to survive in a very competitive atmosphere, it has to regulate its strategic response by developing competitive methods particularly at the market level. The generic competitive methods planned by Porter (2008) to gain competitive advantage fall in to three broad classes.

These are cost leadership, differentiation and focus strategies. If a firm in an industry is able to deliver benefits to buyers at a low cost, the firm will have competitive advantage over rivals who cannot do this provided that it can sell at prices that are at or near the industry average. An organization that is able to use its value chain to create competitive advantage is able to continually reinvent itself and therefore have sustainable competitive advantage that will ensure that it will remain competitive in the long run unlike organization that try to be competitive based on factors that can be easily imitated by others such as price (Mburu 2015).

All businesses around the world are attempting to improve their potency and maximize their market share by optimizing the opportunities offered in the market and handling the problems and challenges. To succeed in these goals, the managements of companies ought to
understand that they live among a dynamic external and internal atmosphere that features a heap of variables that have an effect on the corporate and its market value.

METHODOLOGY
The study was explanatory, aimed at reporting the current state of affair of the banking industry in Ghana. In line with the study approach, a structured questionnaire was also administered to all the target respondents. Quantitative method of data collection techniques was adopted. Primary data was collected through questionnaires. The population of the study comprised of all the banks in the banking industry in Ghana of which a non-probability convenience sampling technique was used to select three banks comprising Eco-bank Ghana, Barclays Bank Ghana and Fidelity Bank as the sample organizations. Sample size of 84 management members was used. Multiple linear regression was used for data analysis.

ANALYSIS AND RESULTS
Impact of Porters 5 Forces on the Performance of Companies in the Banking Industry of Ghana
The study used multiple linear regression to evaluate the impact of five forces model on the performance companies in the banking industry. The coefficient, significance (T statistics) and beta values were used in interpretation of the results at 95% confidence level. The regressions equation is thereby presented as $Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5$. In computing the figures as generated from the multiple regression analysis, the equation however took the form; $Y=1.065 + .144(X_1) + .323(X_2) +.429(X_3) +. -033(X_4) + .095(X_5)$.

From the regression results, the combine effect of 5 forces analysis on the banks performance is moderate with R value of .548. However, with the R square value, the results indicate that 30.1% (.301) of variance in performance can be explained by 5 forces analysis. The output from the ANOVA table shows that, the combined effect of the independent variables (Threat of Substitute, Threat of Entry, Industry Rivalry, Power of Consumers, Power of Suppliers) on the dependent variable (performance) is statistically significant with (F=6.713; p=.000). An F value of 4 is an indication of the model fitness and the F statistics for the study is 6.713, meaning that the model is fit for the study.

Table 1, 2 and 3 presents the model summary, ANOVA and coefficient from the regression output.
The result shows that; power of consumers impact on performance of the financial institutions in Ghana with a coefficient of .144. However, the impact is not statistically significant and the variable is not making any unique contribution to the prediction of performance of financial institution in Ghana (T=1.160; Sig=.250). All things being equal when threat of substitute, threat
of entry, industry rivalry and power of suppliers are held constant, the index of performance will increase.

Power of suppliers is also very important in the five forces analysis on performance of the financial institutions in Ghana. The regression result shows a positively relationship between power of suppliers and performance of financial institutions with a coefficient of .323. All things being equal when threat of substitute, threat of entry, industry rivalry and power of consumers are held constant, the index of performance will increase. Power of suppliers is statistically significant and the variable is making a unique contribution to the prediction of performance of financial institution (T=2.389; Sig=.019). The implication is that, power of suppliers will put financial institution on their fit and hence results in increased performance.

Rivalry among industry players is critical in the performance of financial institutions. Customer sophistication and competition has been engineered by creating value for customers. The output shows a positively relationship between industry rivalry and performance of financial institutions with a coefficient of .429. All things being equal when threat of substitute, threat of entry, power of suppliers and power of consumers are held constant, the index of performance will increase. Industry rivalry is statistically significant and the variable is making a unique contribution to explaining performance of financial institution (T=3.769; Sig=.000). The implication is that, industry rivalry is so dear to the heart of financial institution and propel them to increase performance.

The result shows that; threat of entry inversely impacts on performance of financial institutions with a coefficient of -.033. All things being equal when the index of threat of entry increase, performance of financial institution will fall. Threat of entry was not statistically significant and the variable is not making any unique contribution to the prediction of performance of financial institution (T= - .438; Sig=.663). Likewise, treat of substitute also has negative impact and as well non-significant relationship on performance of financial institution (Coefficient= -.095; T= -1.005; sig= .318).

**DISCUSSIONS**

In comparing the individual effect of the predictor variables (threat of substitute, industry rivalry, threat of entry, power of suppliers and power of consumers) on the criterion variable (performance of companies in the banking industry) so as to identify the variable that makes the greater contribution to explaining the performance, the beta values were used ignoring any negative sign. Threat of substitute, industry rivalry, threat of entry, power of suppliers and power of consumers had beta values of .113, .391, .091, .495 and .133 respectively. From the results,
power of suppliers has the greater beta value of .495 making the greatest contribution to the prediction of performance of banks in Ghana.

Based on the outcome from the analysis, there is no doubt the five forces play a critical role on performance of companies in the banking industry. Porter, (2008), notes that the five forces model helps a company to look beyond its direct competitors. In the case of banking industry in Ghana bargaining power of suppliers had the most impact on performance of banks. This is due to the fact that banks in Ghana major supplier are Electricity Company of Ghana (ECG), who is the sole supplier of electricity in Ghana. And with current electricity charges banks need to develop a strategy to counter that. As Porter (2008) indicated if one supplier has a large enough impact to affect a company’s margins and volumes, then they hold substantial power.

Barraging power of customer was also influential, but not that much. This can be attributed to the fact that customers do not have much influence on the performance of banks currently in Ghana. This is surprising as compared to other parts of the world where customer power is the most influential of the five forces in many industries. The surprised Ghana situation was attributed to the fact that some major banks are having control on prices making it difficult for customers to have preferred choices that can shape the industry behavior. Threat of entry was not statistically significant and the variable was not making any unique contribution to the prediction of performance of financial institutions. This situation ascertain to the earlier fact that, customers bargaining power was low. The industry is either not attractive or there might also be a high entry barrier in terms of high switching cost, or high capital requirement from the government to start a new bank, and other factors.

Even though the telecommunication companies are providing substitutes to the banking industry (in the form of mobile money), threat of substitute product from other industry also had negative impact and as well non-significant relationship on performance of financial institution. This was attributed to the fact that banks have been able to link up customers’ accounts to the mobile money and also with the provision of internet banking the substitute does not seem to pose much threat to the banking industry.

Even though customers bargaining power in the industry was low, there is high rivalry among current competitors in the banking industry of Ghana. This was attributed to high capital investment; high exit barrier and a mature industry with little growth. Competition for customers was high even though the competition was a non-price, but on new product development and innovation because of the low bargaining power of customers.
CONCLUSION AND RECOMMENDATIONS

The banking industry in Ghana is highly influenced by the Michael Porters five forces as data above has indicated. All the five forces played a critical impact on company’s performance in the industry, although their influence does not have the same impact in the banking industry in Ghana. Bargaining power of customers, threat of substitute product, and threat of new entrant into the industry contribution to competition in the banking industry is not significant. Bargaining power of suppliers and rivalry among current competitors were the two forces among the five forces that had the most impact on competition and profitability of companies in the banking industry, and as such influence companies performance. This result could be a new strategic direction for competition in the banking industry in Ghana. On the basis of empirical findings, the researcher made these recommendations:

- Competitive advantage can be gain in the financial sector in Ghana if companies can be innovative in finding new ways to energy supply rather than relying solely on ECG as major supplier. As the money saved from energy cost can be put into lower charges and better customer service technology which can be a competitive advantage.

- Companies in the banking industry in Ghana must invest in new product development since competition in the industry is on product/service innovation. Ability to develop radical product innovations that solve current customer problems might be the competitive advantage companies in the industry require.

The researcher further suggested that other studies should look at how companies in the Banking industry in Ghana can gain competitive advantage through effective management of the bargaining power of suppliers.

REFERENCES


