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EFFECTS OF COMPETITIVE ADVANTAGE ON PERFORMANCE OF LOCAL COMMERCIAL BANKS IN RWANDA: A CASE STUDY OF *BANQUE POPULAIRE DU RWANDA* Ltd

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Abstract: **Globally many firms aim at achieving and sustaining competitive advantage, leading to high performance. However, they face challenge on how to achieve and sustain this performance, especially in a rapidly changing environment. Empirical studies indicate that this can be achieved if the firms understand effects of their competitive advantage. Banking sector in Rwanda faces such challenges, and though the sector has generally been performing well, there is difference in performance among the banks, with some banks reporting poor performance so far as profit before tax is concerned. This main purpose of the study was to determine the effects of competitive advantage on financial performance of local commercial banks in Rwanda. Specifically, the effects of competitive advantage studied were bank activities, bank activity drivers, initial conditions and managerial choice. This study adopted a descriptive research design in soliciting information on effects of liquidity management on financial performance of commercial banks. The target population was 189 employees of BPR. The sampling technique employed was simple random sampling and the sample size was 129 respondents. Primary quantitative data was collected by use of self-administered structured questionnaires. The researcher also used secondary data derived from the audited financial statement of the BPR. The data collected was analyzed, with respect to the study objectives, using both descriptive and inferential statistics. The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Multiple regression analysis was employed to determine relationship between liquidity management and financial performance of commercial banks in Rwanda. Data was presented in tables, charts, figures and mathematical expressions. The study established the relationship between performance and bank activities, performance and bank activity drivers, as well as performance and managerial choices, to be positive and statistically significant. However, the study found that initial conditions do not have a significant relationship with performance of commercial banks in Rwanda. The study recommends that the banking management lobby for the training of all bank staff on the role and application of the various categories of dynamic capabilities as well as on market volatility and the correct measures to be taken within their banks. The study also recommends that all staff be trained on customer service delivery and customer relationship. Management should also ensure robust training programs involving all their employees so as to uplift their intellectual capital.**

Keywords: **Bank activity drivers, Financial performance, commercial banks in Rwanda.**

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1. INTRODUCTION

1.1 Background

Globally, operating environment for businesses has become more and more competitive as firms strive to outperform each other. In order to remain competitive, firms need to devise strategies that will help them build competitive advantage which they can then seek to sustain (Abishua, 2010). All banks can face challenges despite their size and this can lead to poor service delivery affecting the community and other stakeholders (Oyedijo, 2013). Banks accomplish their major role in most economies through their main functions as safe and trustful depository from public surplus known as "savings", an efficient channel through which the payment between different agents are made; and being a competent intermediary between savings from depositors into loan while looking after on maturity date of each one savings and or loans (Doppelt, 2010).

Allen (2008) indicated that banks help in solving informational problems. She further mentioned that banks as delegated monitors by insuring that the firm uses the resources granted to them effectively for a return. Banks also play a vital role in risk sharing in the country by diversifying in their areas of operation. Sinah, (2010) also recognized that the function of commercial bank is to make a pool for other small banks and it also utilizes its financial agency to transform the family savings into enterprise investment to realize transparency in deployment of the resource these for making a good performance.

Commercial banks play an important role in economic development of any country. They encourage savings by mobilizing deposits and increase investments by lending to industrialists and businessmen (Ndungu, 2013). In the last two decades, there has been a rapid increase in the number of local and foreign owned banks globally. Competition is growing by the day and banks are exerting their best efforts for the purpose of achieving profits that help in covering their expenses, ensuring their survivals, and maximizing their values (Kumar, Jones, Venkatesan, & Leone, 2011). Identification of competitive business strategies has become a priority to the banks' management since these have become an integral component of any business venture, in order for it to survive within an industry (Goetzmann, 2009). Some commercial banks have managed to secure an advantageous competitive position while others have not (Maina & Manyara, 2014).

Hawass (2010) attributes a firm's success to satisfying three conditions. The first condition was the company's need for development and implementation of an internally consistent set of goals and functional policies that collectively define its market position. This requires a common strategy to coordinate all functions of the business. The second condition is the consistent alignment of the internal set of goals and policies with the firm's strengths, weaknesses, external opportunities and threats. However, in a dynamic environment, the role of strategy is to also maintain a dynamic and not a static balance (Ambrosini, & Bowman, 2009). The third condition is for the firm's strategy to be mainly focused on the identification and exploitation of its distinctive competencies, the unique strengths that make possible its competitive success. Thus, a firm's attractiveness is viewed as a function of the attractiveness of the industry in which the firm competes and the firm's relative position in that industry.

Competitive advantage can be viewed as any activity that creates superior value above rivals. Hence, a company wants the gap between perceived value and cost of the product to be greater than its competitors (Ambrosini *et al.*, 2009). Firms may also gain CA through the initial position, managerial choices, resources and the firms' activities (Danneels, 2010). The strongest competitive advantage is that strategy that cannot be imitated by other companies. For a firm to attain sustainable CA, it has to achieve a superior position, superior skills and superior resources within the industry (Kamukama, Ahiauzu & Ntayi, 2011).

Improved financial services provide the population with an opportunity to improve their livelihoods and their developmental welfare. Governments are fully aware that development cannot be achieved without performance access to financial services by the population (Raudan *et al* 2009). As a result, financial institutions such as the banking sector are considered as current and powerful tool for economic growth of a country. Rose, Abdullah, & Ismad, (2010), stated that all across access to finance services is rightly seen as the key for unlocking growth for poor families, households and the corporate firms. This makes adjusting financial system performance a major concern among policy maker in Africa.

Competition may influence stability, the trade, off between competition and stability is complex however seen real at least along some dimensions. According to Thompson and Strickland, (2010) banks are unique because of their particular mix of features which make them vulnerable to runs with potentials systematic. The Financial sector reforms in Rwanda started in 1994 with the establishment of five banks after the war, the main areas of reform were that the central bank of Rwanda embarked on strengthening prudential supervision and regulation of the financial sector. The national bank of Rwanda also started comprehensive annual inspections of banks. In order to support the mobilization of long-term savings, The Government set up a working committee to spearhead the establishment on markets, facilitate the trading of debt and equity securities and enable securities transactions, as well as perform regulatory functions

In 2007, the Government of Rwanda developed a comprehensive and detailed financial sector assessment plan (FSAP I) based on the 2005 financial sector assessment program. The plan for the financial sector reform focused on five areas; building financial structure infrastructure for instance legal framework, increasing access to finance mainly in rural and SMEs sectors, strengthening the pension and insurance industry and developing the payment system. Subsequently, the (FSAP II 2007) has been developed providing a comprehensive framework for the development of the financial sector. In addition, banking sector expansion saw the conversion of the *Union des Banque Populaire du Rwanda* (UPBR) into a cooperative bank, *Banque Populaire du Rwanda* (BPR), in 2008.

Currently, Rwanda's financial system is dominated by the banking sector. Generally, it has witnessed significant transformation. Changes have occurred with respect to the number of institutions, ownership structure and regulatory landscape. The developments was supported by the Central Bank of Rwanda within the framework of systemic stability as supervision and regulation with efforts to ensure that only fit and proper institutions were granted banking license. Other changes include the entry of international and regional players into the sector as shareholders and competitors. To date, the banking sector is comprised of nine commercial banks, three microfinance banks, one development bank and one cooperative bank. National Bank of Rwanda (NBR, 2013) in its report Monetary Policy, Financial Stability Statement demonstrated that the financial sector is driving the economy along with the banking sector in financial service delivery. This positive image adds credibility to cultural standards that facilitate efficiently in competition and workers' attitude and practices. The image and practice are progenitors of defined and internalized values, attitudes and beliefs the organization has established, embellished and embraced which clearly on competition.

Financial Sector Structure is in accordance with international standards and reflects the structure of most countries. The structure is composed of banking sector, non- bank financial institutions which is made of; the pension and insurance sectors. These institutions are supervised and regulated by the National bank of Rwanda, according to Kotler (2006) the most important thing is "to forecast on competition know where customers are moving and to be in front of them". However, building and maintaining a solid client base and winning client trust are other challenges facing the banks especially in this day where the competition, technology moves so faster with a lot of realistic deals. When it is necessary to drive profitability, gain analytical insights, and improve performance on the markets. Refocusing on client needs make banks to face the challenge of maximizing client profitability, taking sustainability challenges and delivering valuable transformation.

1.2 Statement of the Problem:

All firms aim at creating and sustaining competitive advantage and maintaining high performance (Pavlou, 2011). However, there are some sectors and industries which perform generally better than others within any given environment, making such industries more attractive. Looking at the Rwandan market, the banking industry is among those industries that are attractive on performance ground.

Basically, in the face of constantly changing business environment, developing a competitive strategy is not sufficient to improve performance. Rather organizational competencies do provide additional value to organizational performance. During the last one decade, banking has captured the interest of both academics and policy makers (Access to finance Rwanda 2012). The industry has been growing at a significant rate despite the ever-present challenges including competition amongst themselves and with other institutions that offer banking services, increased regulation by the government, and increase in the number of licensed Microfinance Banks (MFBs) (Access to finance Rwanda 2012). Despite these challenges, performance of commercial banks has continued to grow.

Firms in high-performing sectors, such as commercial banks in Rwanda, are expected to have no performance differentiation. However, this is not the case in Rwanda. Some commercial banks have been reporting dismal performance while the sector on average is reporting growth in performance (Tuyishime, Memba, & Mbera, 2015). It is also clear that as much as banking environment in Rwanda has undergone many competitors and financial reforms, which brought about many structural changes in the sectors and have also encouraged foreign banks to invest and expand their operation in Rwanda. With these challenges in the banking sector, this study seeks to identify and evaluate internal and external factors contributing to *Banque Populaire du Rwanda* survival in Rwandan financial market.

1.3 Objectives of the study:

1.3.1 General objective:

The general objective of the study was to determine the effect of competitive advantage on financial performance of commercial banks in Rwanda.

1.3.2 Specific objectives:

The study was guided by the following specific objectives:

1. To determine the effects of bank activity drivers on the financial performance of commercial banks in Rwanda

2. CONCEPTUAL FRAMEWORK

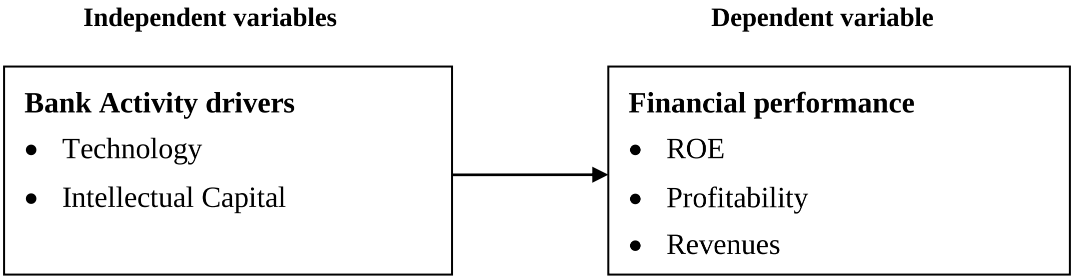

Figure 1: Conceptual framework

3. TARGET POPULATION

Population refers to a large collection of all subjects from where a sample is drawn (Zikmund, Babin, Carr, and Griffin, 2012). The target population for this research comprised of 189 managers from the BPR headquarter. These included 10 general managers, 24 Heads of Departments, 48 credit managers, 42 operations managers and 75 senior managers based at BPR bank head office.

3.1. Sample size and sampling technique:

Sampling is appropriate when it is not feasible to involve the entire population in the study (Cooper & Schindler, 2010). This study employed stratified random sampling. Babbie (2013) posit that stratified random sampling is appropriate when the population is not homogeneous. This was appropriate for this study since the Banking sector have various sectors and as such they are deemed to be heterogeneous. The basis of stratification was the sector in which they operate.

Sampling frame is a list of all the population subjects that the researcher targeted during the study (Ngechu, 2014). A sample of 129 respondents was chosen. The study applied Yamane (1967) formula to calculate a representative sample size for any given population. The formula used to calculate the sample size for this study is described below

$$n = \frac{N}{1 + N\,(e)^2}$$

Where n = the desired sample size

e= probability of error (i.e., the desired precision, e.g., 0.05 for 95% confidence level)

N=the estimate of the population size.

$$n = \frac{189}{1 + 189\,(0.05)^2} = 129$$

This shows that sample size of 129 employees was selected for the research.

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Bank Activity Drivers:

To evaluate the role of bank activity driver, the respondents were asked to rate certain factors on a scale of 1-5 where 1- Strongly disagree; 2 – Disagree; 3 – Indifferent; 4 – Agree; 5 –Strongly agree. The survey data collected was computed and percentages, means and standard deviations presented in Table 4.1

Table 4.1: Results of Bank Activity Drivers Rating by Respondent

Statements	Mean	Std. Dev.
Bank's website interface accuracy is of required quality	4.1	0.87
The transactions are secure	4.2	0.966
All necessary information is readily available on the site	4	1.038

The bank's website is easy to use	3.7	1.018
The ATMs are conveniently located.	3.93	0.917
The bank provides sufficient number of ATMs	3.65	1.331
ATMs satisfy all the intended functions	3.8	0.966
Diverse service features are available	4.08	1.047
The bank employs the most advanced technology	3.93	0.917
Innovation of the existing products	4.15	0.7
Employees' interpersonal skills	4.08	0.797
Development of new products	3.5	1.219
Employees' academic achievement	4.25	0.87
Employees involvement in decision making	3.6	0.955
Aggregate score	4.00	0.930

The results of the survey data gave a mean of 4.00 and SD of .930, indicating that the banking sector is doing quite well on bank activity drivers and this is generally the case across the sector, as evident from the moderate deviation. This could be due to the adoption of new technology which could in turn be due to the youthful management team as seen in demographic data analysis earlier. The data in respect of provision of sufficient number of ATMs resulted in a mean of 3.65 and SD.1.331, showing a moderate rating and a large deviation. Thus, we can conclude that the available number of ATMs is slightly above average, so banks need to increase the number of ATMs. This is necessitated by the fact that most of customers are moving from banking hall services as technology facilitates other banking services via ATM, such as money transfers to other accounts, cash deposits and accessing of bank statements.

Employee academic achievement was rated high, with 20% regarding it as important, 35% viewing it as more important and 45% as very important. The results of the survey gave a mean of 4.25 and SD of 0.776. This indicates that banks value academic achievement and this is in agreement with the earlier analysis of the highest academic level, where majority of the respondents were holders of master’s degree. Research work on banking industry was rated poorly, with a mean of 3.25 and SD of 1.104. The percentages were: 5%, not important; 20%, less important; 35%, important; 25%, more important; and 15%, very important.

The findings were supported by Onyango (2011) who found out that intellectual capital was an important competitive advantage factor among service industries. Kamukama (2011) had a similar view and linked intellectual capital with promotion of a firm’s competitive advantage. This is also supported by Wang and Changa (2015) who acknowledged intellectual capital as a fundamental determinant of a firm’s current and future competitiveness and value growth. From secondary data and unstructured interview, the study found out that intellectual capital is considered an important component of activity drivers among the commercial banks. However, the commercial banks value knowledge sharing among the staff, so at entry point, banking knowledge is not a priority as banks believe that on-the-job training is more effective than formal trainings. This has led to employment of staff with different professional backgrounds or varied fields so far as formal education is concerned.

5. CONCLUSIONS

Conclusions were arrived at the influence of independent variables (Bank activity drivers, managerial choice, initial conditions, bank activities,) on dependent variable of financial performance of BPR was based on the findings of the study.

The results indicated a positive significant relationship between the drivers of competitive advantage, initial conditions and performance of BPR. The study concludes that bank activities significantly influence the performance of BPR. Also, the results showed that bank activity drivers have a significant influence on performance BPR. This study found the relationship between initial conditions and performance as statistically insignificant. This leads to the conclusion that initial conditions do not significantly influence BPR performance. The study also found the relationship between managerial choices and performance to be positive and significant. Hence, the study concludes that managerial choices significantly influence performance of BPR.

5.1 Recommendations:

The findings of this study can be used to draw various conclusions on the performance of the BPR and the recommendations made may only be limited to this sector. Bank activities were found to be positively significant, influencing performance; hence, managers should enhance training to improve the skills of their staff on customer service delivery and management of customer relationship. The firms should empower their research and design departments to facilitate the understanding of customer preference changes of products and services. Customer service department should constitute highly trained personnel with proper knowledge of the customers' current needs and available products so as to respond to customer queries on first meeting. Rwanda government through the Ministry of Finance and in collaboration with BNR should develop policies on the qualification of customer service officers in the commercial banks and monitor the way they work to ensure world class services are offered to all customers.

5.2 Areas for further research :

Based on the research findings of this study, further studies should be conducted to enrich the body of knowledge in the area of performance in a dynamic environment. There should also be similar studies carried out using the longitudinal survey method. Also, similar study should be carried out in to validate the findings of this research. The researcher also recommends further studies that take into account other effects of competitive advantage, not included in this study.

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