

A STUDY OF IDENTIFYING THE FACTORS ON COMPETITIVE ADVANTAGE FOR BANK OF CEYLON LEASING - SRI LANKA: WITH SPECIAL REFERENCE TO KAHAWATTA BRANCH

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ABSTRACT

This study analyzes the factors affecting on a competitive advantage in financial industry. For the purpose Bank of Ceylon Leasing- Sri Lanka (Kahawatta Branch) was selected where is a less improvement in the leasing section in loan transactions. Hence, BOC facing with a huge competition in the industry, in order to be stable in the leasing market. This study directed at how Service Quality, Promotional Effort, Advanced new technology and Lease Price contribute affect in achieving a Competitive Advantage and analyze what impacts most. To collect data a structured questionnaire was used and distributed among the sample which represented 77% (40 BOC leasing customers) from the population using the simple random sampling method. The data was analyzed through correlations of variables and multiple regression in order to answer for the Hypothesis of the study. The results indicated that Service Quality and Lease Price are positively impact on Competitive Advantage and New Technological Advancement and Promotional Effort have no impact on Competitive Advantage. The analysis discloses that Lease Price as the main contributor (81% Co-relation) and secondly the Service Quality (22% Co-relation) results for change in competitive advantage.

KEY WORDS: Advanced new technology, Competitive Advantage, Lease Price, Promotional Effort, Service Quality

Introduction

Leasing industry of the country is in the growing stage and experiencing higher growth rate than the general economy of the country. Since the industry is highly fragmented and in a rising competitive environment, the margins are under pressure and the profitability may be affected. Access to low cost financing, innovating leasing products and higher promotion may increase the competitive advantage of the companies in the industry. In the current economic conditions, banks, bigger finance companies and long established specialized leasing companies have better positioned to be profitable and sustained its line of business.

Competitive advantage will ensure that the firm survives and is placed in a prominent position in the market (Allan 2009). One is by making sure that the firm is able to offer all the benefits that its competitors are offering but at a much lower price. The other way a firm can create

competitive advantage is by making sure it utilizes all its resources well. Resources in a firm will include both the material and the human resource. All the materials should be handled with care in the firm. (Hamel and Prahalad 1990).

BOC has started its Leasing Section in the year 2005. It offers leasing facilities to the customers for plant and machinery, motor vehicles and professional equipments. Table 1.1 shows the reduction Interest incomes from loans and leases when passes the 2009 to 2010. In the particular branch it is a reduction of interest income, 22% from lease and 6% from Loans. The group of BOC affected by 10.6% reduction of the interest income from Lease and 5.3% interest income reduction from Loans.

Table 1.1 Interest incomes from loans and leases of Bank of Ceylon (2009-2010)

Interest income	Bank		Group	
	2010 (RS.'000)	2009 (RS.'000)	2010 (RS.'000)	2009 (RS.'000)
Loans and advances	24,029,532	25,608,860	24,599,475	25,983,944
Leasing	728,841	936,415	2,086,052	2,335,035

(Source: Bank of Ceylon Annual Report-2010)

Research Problem

Considering the situation in BOC, it is important to find out the means of achieving a competitive advantage, since the private financial institutes have emerged rapidly. The researcher has observed that there is an issue of obtaining competitive advantage through the leasing activities conducted by BOC. They have granted a few amounts of leasing facilities when comparing with other organizations engaged in leasing activities. Leasing is a good way to increase the bank's profitability, good will, customer relations. But there is no high performance of the leasing activities in BOC yet. There are several reasons for that. The large amount of powerful competitors is a considerable problem. When considering about Kahawatta branch and the other several BOC branches in the area, the leasing activities are handled by loan section. So it may be complex to handle both loans and leasing activities together because of loan recovery tasks and many other duties. There is a less promotional effort on the BOC leasing, and they do not provide a large number of leases to cover targets. But some powerful leasing organizations have daily leasing targets. BOC offers leases after finding a lot of information about the applicants, so the time of processing a lease is long when comparing with the competitors. Therefore this study tries to identify the factors to pay more attention to obtain competitive advantage for leasing section of BOC.

Research Objectives

1. To determine whether the New Technology affects on competitive advantage.
2. To determine whether the Service Quality affects on competitive advantage.
3. To determine whether the Promotional Effort affects on competitive advantage
4. To determine whether the Lease Price affects on competitive advantage

Hypothesis of the Study

H01; New Technology do not influence on competitive advantage.

HA1; New Technology do influence on competitive advantage.

H02; Service Quality do not influence on competitive advantage.

HA2; Service Quality exchange do influence on competitive advantage.

H03; Promotional Effort do not influence on competitive advantage.

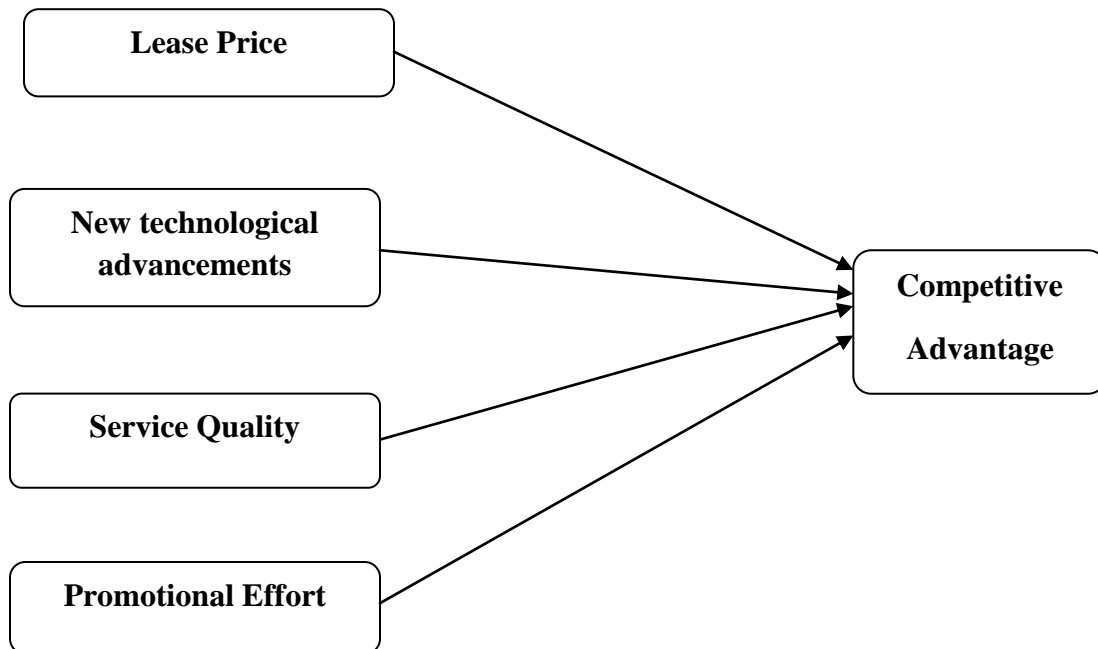
HA3; Promotional Effort do influence on competitive advantage.

H0; Lease Price do not influence on competitive advantage.

HA4; Lease Price do influence on competitive advantage.

Conceptual Framework

Figure 1.1



Literature Review

Competitive advantage

Competitive advantage is a term given to the source of a firm's ability to win business and out-perform competitors at a point in time. Maintaining competitive advantage is a constantly moving target and the source of competitive advantage will shift over time (Stalk, 1998). Stevenson (2009) defines competitive advantage as a firm's effectiveness in using organizational resources to satisfy customers' demand when compared to competitors. Barney (2008) defines competitive advantage as the ability to create more economic value than competitors. Barney distinguishes between two types of competitive advantage: temporary and sustainable competitive advantage. Competitive advantage typically results in high profits, but these profits attract competition, and competition limits the duration of competitive advantage in most cases, therefore most competitive advantage is temporary. A sustainable competitive advantage creates some barriers that make imitation difficult. Without a sustainable competitive advantage, above average performance is usually a sign of harvesting (Porter, 1985).

Service quality

Schendel and Hofer (1979) stated the essential elements in adding value, in terms of (1) Understanding and being close to customers, in particular understanding is their perception value (2) a commitment to quality (3) a high all- round service (4) speedy reaction to competitive opportunities and threats for a greater service quality.

Promotional effort

Long (undated) stated that Promotional effort must be done frequently and thought that the exact nature and degree of promotional activity is driven by the long term experience and market knowledge of the marketer blended with a blend of intuition and instinct.

New Advanced Technology

In the global competitive business scenario, banks, among other organizations, have been facing many changing challenges caused by globalization, liberalization, technological advancements, and changing customers' technological-driven expectations (Moreno et al., 2005). These challenges, among many others, called for extensive search for suitable strategies to be adopted by organizations for growth and survival in the changing and turbulent marketplace (Al-Mansour, 2007). It has been widely emphasized that customers of the banks are main business partners that use and promote the products and services. Hence the customers for a bank are more important than salesmen due to their role in attracting new customers and recommending the products and services to others (Peschel, 2008).

Price and competitive advantage

The cost behavior of value activities is determined by structural factors that are defined as cost drivers. Identification of structural factors provides a heuristic for assessing the cost behavior and cost economics of the value activities for a firm. The relative importance and absolute magnitude

of cost drivers will vary from industry to industry and from firm to firm. Exploiting and shaping these structural factors is a main source of competitive advantage (Stabell & Fjeldstad, 1998).

Methodology

Sampling Method

A sample is a subset of population. The limited time, impracticability of collecting data from the total population led to select sampling methods. Therefore sample methods were used to collect data from the population and the sample was selected by using the simple random sampling method so that the each individual has the same probability of being chosen. Here the sample is consisting of 40 BOC leasing customers. The sample is about 77% of the population.

Data Collection Method

Structured questionnaire was administrated upon the bank officials and selected beneficiaries to obtain necessary information. It has been further supplemented through the interviews with the knowledgeable persons in this field. Documentary sources like annual reports, leasing ledger of the bank, annual action plans and quarterly and monthly publications of the bank have also been used during the course of present study. The questionnaire for BOC leasing customers consist of 41 questions which are related to the variables of the study.

Data Analysis Tools

Quantitative method was used to analyze the data. Under the quantitative method the Likert Scale was included in the questionnaires. The Likert scale (frequently known as an “agree-disagree” scale) was first published by psychologist Rensis Likert in 1932. The technique presents respondents with a series of attitude dimensions for each of which they are asked whether and how strongly, they agree or disagree, using one of a number of positions on a five-point scale. In here five point Likert- scales were used to score the responses as Strongly disagree (1), Disagree (2), Moderate (3), Agree (4) and Strongly agree (5). Statistical Package for Social Sciences (SPSS) was used to analyze the data collected through Likert scales. Regression analysis was used to measure the strength of the association between each independent variable and the dependent variable.

Data Analysis

The Regression Model

Statistical assumption

The researcher made an assumption “There is no any interrelationships between Independent Variables”. This facilitates the researcher to test a multiple regression.

$$CA = \beta_0i + \beta_1Ti + \beta_2PEi + \beta_3SQi + \beta_4LPi + et$$

Where;

CA is the Competitive advantage, T denotes the technological advancements, PE denotes promotional effort, SQ is the service quality , and LP denotes the lease price.

Testing the Correlation

As the researchers wanted to test the correlation of each independent variable with the dependent variable to specify the most co related independent variables with the dependent variable the researchers used Pearson’s correlation analysis.

Pearson Correlation Analysis:

Table 2 **Correlations**

		Competitive advantage	Technology	Service quality	Promotional effort	Price
Competitive advantage	Pearson Correlation Sig. (2-tailed) N	1 .013 40	.390(*) .013 40	-.229 .156 40	.378(*) .016 40	.812(**) .000 40
Technology	Pearson Correlation Sig. (2-tailed) N	.390(*) .013 40	1 .013 40	.284 .076 40	.063 .700 40	.591(**) .000 40
Service quality	Pearson Correlation Sig. (2-tailed) N	.229(*) .156 40	.284 .076 40	1 .013 40	-.070 .667 40	.000 1.000 40
Promotional effort	Pearson Correlation Sig. (2-tailed) N	.378(*) .016 40	.063 .700 40	-.070 .667 40	1 .013 40	.388(*) .013 40
Price	Pearson Correlation Sig. (2-tailed) N	.812(**) .000 40	.591(**) .000 40	.000 1.000 40	.388(*) .013 40	1 .013 40

** . Correlation is significant at the 0.01 level (2-tailed).

According to the table 2 it is apparent that all the independent variables are significantly correlated with the dependent variable at the confident level of 95%. The highest correlated independent variable with the dependent variable (CA) is Lease Price (LP) with a .812 correlation. Secondly Technology (T) .390, next Promotional Effort (PE) .378 and Service Quality (SQ) .229 correlated with the Competitive Advantage (CA).

Regression Analysis for Total Sample

Model Summary for Total Sample

Table 3 **Model Summary^b**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845(a)	.715	.682	.49802

- a. Predictors: (Constant), Price, Service quality, Promotional effort, Technology
 b. Dependent Variable: Competitive advantage

The model summary gives R Square value of 0.715. This indicates that Independent Variables explain 71.5 % of the variation of CA. Thus the model seems to be a good one to explain CA.

Testing the Significance of the Model

Table 4 **ANOVA^b**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.734	4	5.434	21.907	.000(a)
	Residual	8.681	35	.248		
	Total	30.415	39			

- a Predictors: (Constant), Price, Service quality, Promotional effort, Technology
 b Dependent Variable: Competitive advantage

Hypotheses for the Model

H0 ; Model is not significant H1 ; Model is significant

P- value $0.000 < 0.05$. Therefore at 95% confidence level H0 is rejected and H1 accepted. This confirms that the model is significant.

Coefficients for Total Sample

Table 5

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.909	.719		1.263	.215
	Technology	-.029	.115	-.031	-.253	.802
	Service quality	.196	.087	-.216	-2.243	.031
	Promotional effort	.045	.089	.051	.506	.616
	Price	1.060	.166	.810	6.388	.000

a Dependent Variable: Competitive advantage

$$CA = \beta_0 i + \beta_1 Ti + \beta_2 PEi + \beta_3 SQi + \beta_4 LPi + et$$

$$CA = 0.9 - 0.29 Ti + 0.19SQi + 0.45PEi + 1.0Pi + et$$

According to the above analysis, only two independent variables as the Lease Price and the Service Quality come to the final model. They have a significant relationship with the competitive advantage for BOC Leasing. And other two independent variables as technology and Promotional Effort are not significant with the competitive advantage for BOC Leasing.

At the end of the regression analysis the final model can be built as follows after excluding insignificant variables.

$$CA = \beta_0 i + \beta_1 SQi + \beta_2 Pi + et$$

$$CA = 0.9 + .19SQi + 1.0Pi + et$$

Conclusions

Study indicates the relative impact on dependent variable due to the changes of independent variables. If Service Quality changes by one unit, Competitive Advantage would change by 0.19 units which correlate with the dependent variable by .229. Same as if Lease Price changes by one unit, Competitive Advantage would change by 1.06 units which correlate with the CA by .81.

Therefore the industry must develop strategies to introduce novel price schemes which facilitates customers since, it affects with a huge proportion to the competitive advantage. Industry firms must analyze the industry rivalry in order to recognize novel ideas to be implemented in the financial world. Since the customers are highly price sensitive in case of loans and leases it is

obvious to pay attention on the lease/Loan prices. Further, a good quality of service would lead to attract new customers and to retain them for a longer period of time.

Recommendations:

➤ Implementing the flexible rental method

Currently the BOC Leasing customers have to pay a fixed amount as lease rental in each month. Many leasing organizations follow the flexible rental method as the customers have facilitated to pay a low rental in months which they have economic difficulties and they also can pay a high rental in months which they have good economic situations. Following the flexible rental method is also beneficial for BOC.

➤ Reducing the first installment

In BOC, the first installment for a lease is minimum 25% of the lease facility amount. If BOC reduce this amount of 1st installment, it will be advantageous within the competitive environment.

➤ Recruiting talented staff

In many branches it is not given a great attention about leasing activities as other services. So the staff should be trained about leasing activities and how to attract customers towards the leasing. New talented employees should also be recruited to improve the progress of leasing section of rural branches.

➤ Privatizing the leasing section of BOC

Some government banks have privatized their leasing section and earn greater profits through new management skills and sophisticated resources. If BOC privatize its leasing section it will be able to increase the profitability of the whole organization.

➤ Improving the quickness of providing leases

Currently most people have tended to obtain three wheelers under leases as it is suitable with their economic conditions. However there is a delay of providing three wheeler leases through BOC when comparing with other organizations. Therefore it should implement necessary procedures to improve the quickness of providing leases especially, for three wheeler leases.

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