



11 June 2017

Competitive Advantage Strategies in Emerging Markets: A Study of Digital Transformation in the Banking Sector

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Abstract

This paper analyses how digital transformation can be used to create competitive advantage strategy in the banking industry in the emerging markets. The data of 120 respondents comprising of banking professionals as well as customers was collected using a descriptive and analytical research design. The outcomes demonstrate that the digital transformation is the secret in order to improve performance of the functioning processes, satisfaction of customers and the success on the market. The hypothesis tests of correlation and regression results demonstrate that there exists a strong positive correlation between adoption of digital technology and competitive advantage wherein digital adoption emerged the most influential variable. Additional limitations encountered during the research are the unequal use of the advanced technologies and infrastructural barriers. The results highlight the necessity of including the digital capabilities, the customer-centric innovation and organizational agility to be able to reach a sense of long-term competitiveness. The paper provides strategic insight (to banks and policymakers) on how to maximize the digital transformation to become more responsive to new market conditions.

Keywords: Digital Transformation, Competitive Advantage, Banking Sector, Emerging Markets, Customer Satisfaction, Operational Efficiency, Technological Innovation, Organizational Agility

Introduction

With the intensive diffusion of the digital technologies, the industry of banking worldwide has been altered drastically, transforming the traditional business model and patterns of competition. This change is even greater in emerging markets because of the peculiar institutional factors like the absence of regulatory gaps, infrastructural limitations as well as changing consumer expectations. It is these features that culminate into what the academics refer to as institutional voids that not only catalyze but also mediate the innovativeness and new competition practices that the companies would be able to devise to fit in the local contexts.

This classical idea of competitive advantage, which is essentially grounded in cost leadership, differentiation and the focus strategy has evolved to be more reliant on less concrete resource bases like knowledge, technological capabilities and organizational agility. Resource-Based Introducing digital banking services has enhanced financial inclusions, lower transaction costs, and enhanced service delivery. Simultaneously, the mounting competition among fintech companies and other non-traditional financial services providers implies that banks should seek to stay innovative and strategically adjusted. Digitization enables banks to transform into services providers with customers as a central focus, transforming their value propositions and competitive standing.

Also, the dynamic capabilities notion, as defined by Teece, Pisano, and Shuen (1997) is quite applicable in explaining how the banks in the emerging market keep changing to suit the rapidly changing environment due to technological advancements. Dynamic capabilities help organizations to feel opportunity, grab them, and organize the resources to ensure competitiveness. The capabilities, in the case of digitizing the banking industries, are reflected in the capacity to design innovations in the products, improved customer interactions and be effective in reacting to regulations and changes in the market.

The paper seeks to discuss the role of digital transformation in the creation of competitive advantage strategies in the banking industry in the emerging market. Through the use of earlier publications and theoretical ideas, the study aims to establish substantive drivers, challenges and strategic implications of digital transformation in the banking industry.

Literature Review

Over the last several decades, the literature on the topic of competitive advantage has developed, and the initial entries into the topic were based on the economics of industrial organization and subsequently shifted to an approach toward capabilities of firms. Porter (1985) has developed a conceptualized competitive advantage in terms of a generic strategies, focusing on differentiation and cost leadership. Later studies, however, revealed the weakness of this strategy in dynamic and technology based settings.

Other studies whose work was on the role of knowledge, organizational learning, and innovation in maintaining competitive advantage included Matusik and Hill (1998), and Moorman and Miner (1997). The insights are especially applicable to the banking industry, where the technological capabilities and decision-making on the basis of data have become the key success factors.

The entry of the digital transformation as the study area has given a new facet to the research topic of competitive advantage. Yoo et al., (2010) conceptualized digital innovation in terms of recombination of digital technologies, and this brings about new products, services and business models. This vision is oriented to the transformative element of the role of the digital technologies to change industries, among them the bank industry.

The institutional theory in the emerging market settings provides greater data about the manner in which companies could be able to conduct their business activities in complicated and in most instances poorly developed institutional environments. Khanna and Palepu (2010) emphasized that companies in the emerging markets should formulate strategies to deal with institutional voids (which can be lack of infrastructures and intermediaries in the market). Such strategies typically comprise taking advantage of digital technologies to close gaps and establish new value propositions.

The banking industry has been empirically shown to be greatly affected by digital transformation in terms of performance and competitiveness. One such is the study on the theory of financial intermediation whereby it is assumed that with the advancement of technology (digital technology) we are in a position to decrease the information asymmetry and transaction costs, which leads to increase in efficiency and increment in the overall financial expansion.

Equally important, regarding revenue diversification, the same results indicate that banks that do make new strategies tend to lead a higher performance, although the benefits are only by appropriate risk management in place and strategy alignment.

The banking industry has been further improved in terms of competition due to the advent of online platforms and fintech. To rival fintech companies, traditional banks have to be digital to offer new financial services using new technologies. It has given rise to hybrid business models, in which banks are partnering with fintech firms to improve the service provision and customer experience.

More recent literature also discusses the role of customer-centric strategies to attain competitive advantage. Digital transformation is helping banks to gather and process lots of data of customers (in fact providing the possibility of personalized services and customer engagement). Prahalad and Krishnan (2008) highlighted the significance of co-creation and customized experiences of customers as the sources of competitive advantage in the digital era.

Even after the increased amount of literature, there are a number of gaps. The dominant reading in the literature is on developed markets and little attention has been advanced on the unique challenges and opportunities in the emerging economies. Moreover, cohesive frameworks integrating digital transformation, competitive approach, and organizational setting do not exist.

Objectives:

Research questions will be: How digital transformation helps the banking industry in developed markets to gain competitive advantage? To explore influence of critical technology

factors on strategic performance, to assess effects on customer experience and efficiency of the operations and DSS issues and opportunities commonly encountered by banks as they seek to attain sustainable competitiveness.

Methodology:

The research design is descriptive and analytical based on primary and secondary data to analyze how digital transformation affects the competitive advantage in the banking sector of the emerging markets. The collection uses structured questionnaire given to bank professionals and customers where stratified random sampling is used to collect the primary data, and the secondary data is collected using journals, reports, and databases.

Results and Discussion

Figure Data will be analyzed based on the data collected on 120 respondents (including 60 banking professionals and 60 customers) in emerging markets. The analysis quantifies the relationship between the digital transformation initiatives and the indicator of competitive advantage that are the efficiency of operations, customer satisfaction, and successful operation in the market.

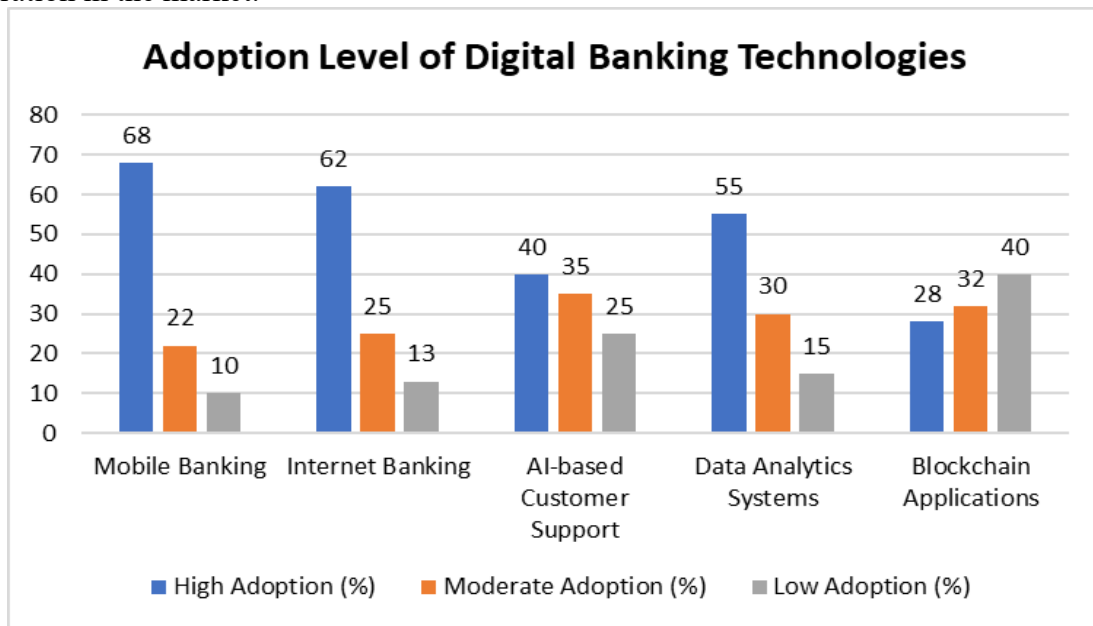


Fig. 1 Adoption of Digital Banking Technologies

The mobile banking and internet banking have the most adopted ones as indicated by the table (68 and 62 respectively), which implies that they are mature and accepted by the customers. The use of intelligent technologies such as AI and blockchain has relatively low rates of usage due to high rates of integration and regulatory uncertainty. It is also a sign that in the current moment banks do place a greater emphasis on customer facing technologies as source of competitive advantage.

Table 1 Impact of Digital Transformation on Operational Efficiency

Parameter	Mean Score (Out of 5)	Standard Deviation
Reduction in Transaction Time	4.32	0.68
Cost Efficiency	4.10	0.72
Process Automation	4.25	0.65
Error Reduction	4.05	0.70

The fact that all the mean scores exceed 4 shows that operational efficiency is strongly positively affected by digital transformation. The most important score is on transaction time reduction (4.32) in which the service is delivered faster directly contributing to competitive advantage.

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Table 2 Impact on Customer Satisfaction

Factor	Mean Score (Out of 5)	Rank
Ease of Use	4.40	1
Service Accessibility	4.35	2
Personalization of Services	4.05	3
Complaint Resolution Speed	3.90	4

The ease of use and access: It is found that ease of use and the accessibility factor relates to customer satisfaction which means that user friendly digital platforms aids in customer satisfaction among customers. But the comparatively lesser scores on complaint resolution indicate a field that needs to be strengthened.

Table 3 Correlation between Digital Transformation and Competitive Advantage

Variables	Correlation Coefficient (r)
Digital Transformation & Efficiency	0.72
Digital Transformation & Customer Satisfaction	0.68
Digital Transformation & Market Share Growth	0.64

The correlation value values reflect that the two variables of digitization transformation and competitive advantage have a significant positive relation of values. The fact that the greatest correlation is experienced with the operational efficiency (0.72) affirms that the digital efforts positively affect the performance within the organization.

Table 4 Regression

Variable	Beta Coefficient	t-value	Significance (p-value)
Digital Technology Adoption	0.48	5.62	0.000
Customer-Centric Innovation	0.36	4.10	0.001
Organizational Agility	0.29	3.45	0.002

The results of the regression indicate that competitive advantage depends most on the use of digital technology (Beta = 0.48) and then on the customer-centric innovation and organizational agility. The hypothesis that digital transformation has a positive effect on competitive advantage is corroborated with all the variables being statistically significant ($p < 0.05$).

The discussion shows the type of role digital transformation has in the creation of competitive advantage in the banking industry in the emerging markets. Banks that successfully establish digital technologies emulate more operational efficiency, enhanced customer satisfaction and are more capable of competing. The asymmetrical allocation of funds towards the high-tech elements, however, also demonstrates that strategic and purposeful investment and regulatory assistance is needed to enjoy the entirety of the benefits of digital transformation.

Conclusion:

The article concludes that digitization is a decisive determinant of the competitive advantage in banking industry in emerging markets. The results will help in achieving the dream that the introduction of digital technologies can actually make huge difference on the level of operations of the companies, the level of customer satisfaction, and overall performance of the market. Banking institutions that remain successful in their endeavor to adopt digital solutions, customer based behaviours and organisational agility can do more to keep up with the unpredictable market times. However, unequal access to modern technologies and deficient structure problems still do not allow using the benefits of digital and mean the need to be more comprehensive and systematic.



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Recommendations:

The other significant trait of an effective bank is that it is fixated on innovation regarding investment on the most recent digital solutions such as artificial intelligence, data analytics and safe technology platforms that help a bank to increase its competitiveness capacity. Customer oriented innovation should be given priority in order to tailored services and legitimate channels of redressing grievances. In addition, the banking institutions ought to establish the organizational flexibility by using the ideology of technology flexibility and lifelong learning. Enhancing infrastructure development, a secure data protection framework, as well as designing and favorable policies that promote technological advancement and partnership with fintech companies should be encouraged by policy makers and regulators in emerging markets.

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