Sustainable Competitive Advantage for Banking Industry in Iraq:  
A Suggested Models

HelalMouneer Alalie¹, Yoshifumi Harada² Idris Md Noor³

¹(School of Business Innovation and Technopreneurship/ Universiti Malaysia Perlis, Malaysia, Malaysia)
²(School of Business Innovation and Technopreneurship/ Universiti Malaysia Perlis, Malaysia, Malaysia)
³(School of Business Innovation and Technopreneurship/ Universiti Malaysia Perlis, Malaysia, Malaysia)

Corresponding Author: HelalMouneer Alalie

Abstract: Nowadays organizations turn to any standard procedure to gain a sustainable competitive advantage. If sustainable, competitive advantage can bring about benefit to the organization. This paper outlines a model of the establishment and maintenance of sustainable competitive advantage for Banking Industry in Iraq. The Iraqi banking sector is currently facing higher and stronger foreign competition. There are now as many as 69 domestic and foreign banks operating in the Iraqi market. For such banks to stay in business and grow in this highly competitive environment, they should respond positively to all sources and types of foreign as well as domestic competition. In this study, we empirically examine the relationship between implementing an analysis and achieving competitive advantage from the point of view of Iraqi banks' executive managers. Several recommendations were suggested such as calling for mergers, acquisitions or coalitions among smaller banks so as to enhance the banks' competitive stance.

Keywords: Competitive Advantage, Sustainable Competitive Advantage, Banking Industry in Iraq.

I. Introduction

A glance at the competitive business environment around shows that today’s business environment and factors affecting it are very different and more complex than what was in the past. Advancement of IT, technology, production methods, and customer power are among characteristics of today's business environment, all of which are associated with the dynamics and complexity of the markets. Now the question is that what is the secret to survival, success, and the sustainability in today’s hypercompetitive markets? The answer to this question is to find a way for survival and compatibility with the surrounding environment full of challenges and yet gaining a good position in the competitive environment; an important objective whose achievement possible only sustainable competitive advantage (Hakkak&Ghodsi, 2015).

Obviously, each company follows a specific method to gain a sustainable competitive advantage. Warren J. Keegan has defined competitive advantage as “The higher rate of the attraction of what a company offers compared to its competitors in the view of the customers” According to the above definition, the fulfillment of the sustainable competitive advantage requires a company to improve key aspects that contribute to the success of the related activities. Obviously, any business finds a specific way to achieve the sustainable competitive advantage (Hakkak&Ghodsi, 2015).

II. The reality of the banking industry in Iraq

The Iraqi banking system to pass through several stages started from 1867, and the oldest were the Ottoman Bank, Bank of the Shah of Iran, eastern British Bank, and then the Iraqi national banking stage was started in 1935, which saw the creation of the agro – industrial bank that became after 1940 two banks: the Agricultural Bank, industrial Bank.

In 1941, Rafidain Bank was established as a single commercial government bank and commercial single, then the Central Bank of Iraq in 1947, the Real Estate Bank has been established in 1948, Cooperative Bank and the Bank of mortgages, and many of the Iraqi private banks as Al-Itimad Bank and United Bank and Rasheed Bank, in addition to branches of foreign banks, which exceeded the 15 bank, mostly belonging to the Lebanese banks, and Jordan.

At the present time the Iraqi banking system consists of 69 banks, including 7 – governmental organization, and one newly established Islamic bank, and 24 special commercial banks, 19 Islamic banks and
15 branches of foreign banks and 4 Islamic foreign banks, in addition, branches belonging to the banks and spread over All of Iraq’s provinces.

III. Theoretical Background

In this section of the study we present the theoretical background of the study dimensions of sustainable competitive advantage. The definitions of all elements of competitive advantage and Strategic Management and business policy (Industry Structure), Exploring Corporate Strategy analysis (SWOT) and Resource-based view: the seven main elements (RBV) as well as the models of sustainable competitive advantage are reviewed below.

Competitive Advantage

In recent years, the concept of competitive advantage has been a hot issue in the field of competitive strategies and much controversy has been raised in relation to competitive advantage. Nevertheless, providing a precise definition of competitive advantage is a difficult task (Hakkak & Ghodsi, 2015). On the one hand, the competitive advantage has been defined as too much returns, and on the other hand, it has been linked to the performance of capital markets and expectations. However, the most common definition of competitive advantage in the field of competitive strategy and in the context of value creation is whatever cause revenues increase over expenses (Rumelt, 2003).

A competitive advantage is a value adding strategy that is not being implemented by potential competitors and can hardly be duplicated by competitors. A sustained competitive advantage needs to last for a considerable period of time. Competitors involve both the current firms in operation as well as potential firms that are planning to enter the market in the near future (Baumol, Panzar, & Willig, 1982). According to Lippman and Rumelt (1984), efforts to duplicate a competitive advantage need to have been rendered futile for a period of time for it to be considered sustainable (Oliver, 1997). According to (Barney, 1991), for a resource to provide a sustainable competitive advantage, it needs to add value to the firm, be unique, perfectly imitable and cannot be substituted by another resource by competing firm.

Others see competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices (Ohaga, 2004). It gives a company an edge over its rivals and an ability to generate greater value for the firm and its shareholders. The more sustainable the competitive advantage, the more difficult it is for competitors to neutralize the advantage.

Sustainable Competitive Advantage

The competitive advantage is a major goal sought to be attainable by all organizations. Furthermore, achieving it will be through the identification and use of a selected successful competitive strategy, and then managing it in a successful way contributing to increase the value created and strengthening its competitive position in the context of the environment it operates within. The goal of the organization is not only to achieve a competitive advantage, but also to be sustainable to enable the organization to continue to compete strongly under enormous pressure and rapid changes. Organizations should seek to achieve the advantage that is commensurate with their potential and their own capabilities because their lack of success in determining the competitive advantage that can compete with organizations working in the context of the same environment will threaten their existence and survival in that environment.

The Sustainable Competitive Advantage provides many benefits, such as an effective source for attaining superior performance and creating value for the organizations (Vanpoucke, Vereecke, & Wetzelsa, 2014). Consequently, banks and companies are looking for strategic step which can provide them sustainable competitive advantage.

Establishment and development of the sustainable competitive advantage

The concept of competitive advantage is one of the concepts that capture the interest of all industrial and service organizations in order to achieve their objectives in proportion to their potentials and resources. This feature is constantly developed to meet contemporary needs.

The concept of SCA developed in the third millennium and was recognized by researchers, (J. Hoffman, Hoelscher, & Sorenson, 2006), (Heywood & Kenley, 2008), (Madhani, 2009) , (Kinicki & Williams, 2008) , (Kleindorfer, Singhal, & Wassenhove, 2009) they are these efforts exerted by the organization to create common values of action give it an opportunity to obtain a workforce with high loyalty and Affiliation working towards improving productivity both sides quality and quantity. Or "the long-term benefit of achieving some unique values - not just creating a strategy, but longer-term achievement than current and potential competitors, with the potential not to replicate these strategic benefits (Roulin & Bangerter, 2013).
They demonstrated that achieving sustainable competitive advantage is achieved through the implementation of the strategy, and for organizations to succeed, it should exceed four challenges: the challenges of executive leadership, the challenge of the organizational structure, the challenge of the process, and the latest technological challenge.

**Sources of sustainable competitive advantage**

The competitive advantage originates primarily within the organization, but the organization as a system operating in an external environmental influence and is affected. Therefore, any part of this system as well as the external environment can be a source of competitive advantage. Therefore, the resources of the organization must be rare and an integrated approach to provide the Organization with a sustainable competitive advantage. Furthermore, the Organization must have the capacity to effectively and efficiently utilize its resource potential to develop and sustain any competitive advantage, and according to (Adams & Lamont, 2003), the sources of sustainable competitive advantage will be.

1. **Internal sources**

   The organization includes resources owned, activities, and skills. Resources include all capital and financial assets and human assets that represent knowledge, skills, and organizational assets. The organization is distinguished by possessing human resources with advanced scientific qualifications or possessing large capital in comparison with others, which makes it distinguished from other competitors, and more importantly, how the organization manages these resources, for activities and skills relate primarily to the management, methods, and activities of the Organization. It is not enough that resources and skills are able to make the Organization compete with others but must make them superior to resources capable of achieving and sustaining competitive advantage.

2. **External Sources**

   Pitts and Lei (2006) believe that luck is sometimes a source of competitive advantage and lies in four sources: the competitive failure of others, the unique skills of the organization, its unique resources, and luck. It is noted that luck is not very reliable, especially since organizations have reached a high degree of sophistication and technology, there is no opportunity for him in the process, but the proper scientific strategic planning is the way to achieve competitive advantage sustainable. Some studies have suggested that the external environment may be a source of CA, for the external environment comprises an average of political, economic, demographic, and technological factors that affect organizations in a positive or negative direction. Despite both internal and external sources play a role in creating and achieving a sustainable competitive advantage for the organization, it relies more on internal resources. If the external environment factors represent opportunities and conditions for the organization, the advantage can be achieved only through the resources and capacities of the Organization and through their ability to deal with the circumstances and invest those opportunities.

**Approaches to developing the sustainable competitive advantage of the organization**

The great change and rapid transformation of the Organization's environment in the third millennium, which was accompanied by the phenomenon of globalization, which was born in the womb of the tremendous development in all fields at the global level and the accompanying liberation of world trade, capital, human resources, and information in all its dimensions in accordance with the (WTO) world trade organization agreements, the intensity of the competition and the breadth of its fields from traditional competition to hyper competition, and the base of survival of organizations in the industry map from survival of the fittest to survival of the fastest and longest breath.

1. **Perspective of industry structure**

   As for Fred (2011), he perceives that the Five Forces Model of Competition, demonstrates great importance in formulating competitive strategy by analyzing its essential competitive forces, this requires continuous monitoring of what affects the industry environment to identify the opportunities and threats facing the organization, by identifying competitors and their impact and how to enter and grow markets, and there are three steps to use the model of five competitive forces to determine the nature of competitive pressures and strength in a particular industry to form a picture of competition, which is as follows:

   1. First step: Identify elements of each competitive force affecting the five competitive forces of the organization.
   2. Second Step: Assess the strength of the competitive pressures of the five forces and classify them into violent, strong, moderate, weak, natural.
   3. Third Step: Determine whether the combined strength of the five competitive forces leads to attractive
The competitive forces model is a key input to identify the opportunities and threats facing the organization in the industry environment by identifying competitors, their impact, how to enter and grow in markets. Competitive forces are called profitability determinants because they reduce the ability of the organization to raise their prices for high profits, as in form (11) in formulating their competitive strategy to determine the importance of these relative forces and their degree of influence on the organization (Haapalainen & Skog, 2011). This means that analysis of competitive forces requires continuous and constant monitoring of its impact on the industry environment and its importance in formulating a competitive strategy that leads to overcoming competitors and avoiding their threats. Figure 2.12 show competitive forces in the industry in the modified (Porter) model.

**Figure 1**: Strategic Management and business policy. Source: Thomas L. Wheelen & J. David Hunger, (2012)

According to (Jewelry, 2011), the Porter model include The Five Forces Model of Competition, below:

1. Rivalry among existing competitors.
2. Competitive Pressures associated with the threat of new entrants.
3. Competitive Pressures for substitute products.
4. Competitive pressures form supplier bargaining power
5. Competitive pressures from buyers bargaining power

added a sixth dimension to the (Porter) model of competitive pressures of stakeholders because they are of great importance in analyzing the competitive environment.

2. **General Strategies**

Harrison and John (1998) and (Thompson & Coe, 1997) concentrated on this approach focuses on the study of internal and external environments. The internal environment analysis aims at identifying the areas of core competencies in such a way that the organization can use them effectively to achieve competitive advantage and superiority over competitors, identifying internal capabilities, it means, identifying the strengths of their resources and capabilities to enable competitive advantage, and identifying weaknesses that prevent the organization from achieving competitive advantage (Srivannaboon, 2009). The external environment includes the opportunities that allow the organization to choose a new strategy and implement it towards achieving superior performance in the competitive environment and its ability to avoid potential threats that enable it to maintain its competitive advantages.

Because of the continuous change of the organization's environment, it is necessary to sustain the process of identifying opportunities and identifying threats. Negligence will reduce the organization's readiness...
to seize available environmental opportunities and make it more vulnerable to potential threats, leading to a weak competitive position; figure 1 explains the mechanism of this entry.

![Figure 1: Exploring Corporate Strategy. Source: Johnson, Gerry, & Scholes, Kevan, (1997)]](image)

Strategic analysis is a set of tools used by management to determine the extent of change in the external environment, and to determine the competitive advantage or efficiency of the organization in controlling its internal environment, thereby increasing the ability of senior management to define their objectives and strategic position.

3. The Resource-Based View (RBV)

The resource-based approach is the most important approach used to understand the dynamics of competition emanating from the internal environment of the organization (Senyucel, 2009). The philosophy of this approach is to highlight the role of internal environment variables, especially the strategy, and that the organization should be viewed as a portfolio of resources (Senyucel, 2011). (Lynch & Smith, 2006) has illustrated in the figure below a set of attributes that should characterize the organization's resources in order to be able to achieve and sustain a competitive advantage, and they are: the resources selected previously, the relative strength of competition, the creative capacities of the Organization, the power of continuity, the difficulty of substitution, the appropriate allocation and distribution, the difficulty of imitation (Lynch & Smith, 2006) argues that this approach requires greater clarity because it involves a number of weaknesses, the most important of which is the absence of an indicative logic between the factors and elements to be considered, and the discoveries about the resource-based view do not guarantee how resources evolve and change over time. This approach takes a mechanism shown in Figure (3).

![Figure 3: Resource-based view: the seven main elements. Source: (Lynch & Smith, 2006)]](image)
Models of sustainable competitive advantage

The concept of competitive advantage drives business strategy and has received considerable treatment in the literature. Within the strategic management literature, there four competing models of sustainable competitive advantage.

1. The (Fahy & Smithee, 1999) model, based on scarce resources

In their example, they point to the organization has a diverse insight to create high value through a competitive strategy using unique, scarce and valuable resources that are hard to imitate, both concrete and intangible, as well as the organization's strategically important skills and capabilities, therefore it should be protected and maintained, because investment in these resources generates high profitability and sustainable competitive advantage. The organization should use the legal framework if its intellectual rights are violated (Fahy & Smithee, 1999b). Figure 2.15 illustrates the work of this model.

![Diagram](attachment:13.png)

**Figure 4:** Strategic Marketing and the Based View of the Firm. Source: (Fahy & Smithee, 1999)

2. Approaches of researches on sustainable competitive advantage

This model starts by assessing the competitive position of the organization to achieve sustainable competitive advantage by balancing the customer's approach to achieve his loyalty and satisfaction by creating a high value for him and the competition to achieve excellence. This model differs from the previous methods to achieve competitive advantage based on the highest profitability and increasing market share. This model emphasizes market relations, customer value, and the spread of relationships, social ties and work networks, customer value is achieved through the use of the organization's core competencies, obtained through building strong relationships which are characterized by trust, loyalty, and commitment as resources that cannot be reproduced or purchased, and therefore must be merged and integrated to form a source of the intrinsic capabilities to build sustainable competitive advantage (Day & Wensley, 1988). The (Hoffman, 2000a) model is as follows:

a) The work of the network is a priority for trust.
b) Communication precedence for both trust and organizational learning.
c) Commitment is the result of both trust and organizational learning
d) Sustainable competitive advantage is the result of commitment and trust (Hoffman, 2000a). Figure 4 refers to this model.

![Diagram](attachment:2.png)

**Figure 4:** An Examination of the Sustainable Competitive Advantage Concept. Source: (N. P. Hoffman, 2000)
3. The (Kearns & Leaderer, 2001) A Resource-Based View of Strategic IT Alignment

The IT strategy promotes organizational knowledge that leads to sustainable competitive advantage. CEOs make it clear that IT investment is a competitive advantage and that investing in it leads to an understanding of successful investments that generate high profitability. In the foresight of the business plan and the vision of the IT plan (Kearns & Lederer, 2001). Figure 5 illustrates the model of achieving sustainable competitive advantage through an IT strategy.

![Figure 5: Strategic IT Alignment: A Model for Competitive Advantage. Source: Kearns & Grover S & L. Leaderer. Albert, (2001)](image)

4. The (Bennett & Gabriel 2001) model, based on the organization’s reputation

This model is based on the reputation of the organization for achieving sustainable competitive advantage. Reputation is a measure of trust and an indicator; It is a general perception of the organization based on its image, identity, contacts, and relationships. Organizations evaluate their reputation as a concept that is strengthened over time and cannot be built quickly because it is derived from personal experience; it represents the ability to deliver valuable results to stakeholders. In this context, (Johannes) emphasized that strategic matching through social responsibility, credibility, trustworthiness, and commitment is the organization's reputation as a social advantage enabled the organization to analyze the strategic situation of the internal and external environment to achieve the relationship between the organization and the influencing factors, leading to a sustainable competitive advantage through reputation (Johannes, 2002).

points out that the reputation of the organization generates many benefits of the organization, which includes standing against counter-propaganda and resistance. Good reputation serves as a valuable signal in cases of ambiguity and lack of information, where customers use their perceptions through the organization's reputation for translating ambiguous information. Conversion and trust, or trust is the result of experience and reputation (Bennett & Gabriel, 2001). Figure 6 illustrates this model.

![Figure 2.18: Reputation and Supplier Commitment. Source: (Bennett & Gabriel, 2001)](image)
Theories for competitive advantage

Competitive advantage is obtained when a companies and organizations develop or acquires a set of attributes that allow it to outperform its competitors. The development of theories that help explain CA has occupied the attention of the management scholars for the better part of half a century. There were two dominant theories of CA: The Market Based View and the Resource Based View. The notion of core competencies is closely related to the resource-based view of strategy (Wang, 2014).

1. The Market-Based View (MBV)

In formulating this strategy, companies and organizations commonly make an overall assessment of their own CA via an assessment of the external environment based on the five forces model (Porter, 1985). The five forces under consideration consist of the following: barriers to entry, threat of substitutes, bargaining power of suppliers, bargaining power of buyers and rivalry among competitors (Porter, 1985).

2. The Resource-Based View (RBV)

Some scholars distinguished between tangible and intangible resources and conclude that intangible resources are often the most important ones from a strategic point of view. They argue that intangible resources are more likely to be a source of SCA rather than tangible ones (Ray, Barney, &Muhanna, 2004).

3. The Knowledge-Based view (KBV)

While most scholars subscribing to the Resource-Based View regard knowledge as a generic resource, some scholars argued that knowledge has special characteristics that make it the most important and valuable resource. And other researchers argue that knowledge, know-how, intellectual assets and competencies are the main drivers of superior performance in the information age (Wang, 2014).

4. The Capability-Based View (CBV)

View Some scholars point out that capabilities are the source of CA while resources are the source of capabilities. And scholars argued adopted a similar position and suggested that resources do not contribute to SCA for an organization, but its capabilities do, as well as supported the importance of capabilities and scholars point out that a firm can gain CA from its ability to apply its capabilities to perform important activities within the organization (Wang, 2014).

5. The Relational View of Strategy (RVS)

Wang (2004) presented the notion of a business arrangement as the fundamental unit of analysis for business relationships. A business arrangement is, ‘any formal or informal business contract between different business partners for the purposes of buying, selling, collaboration or related business activity. These activities could include sharing business information, buying or selling goods, receiving or providing services, participating in buy-side or sell-side coalitions, or collaborating on community projects’ (Wang 2004).

6. Transient Advantage (TA)

Finally, (Gunther McGrath, 2013) a new proposal made an important case for overturning traditional assumptions about the temporal scope of the strategy formulation and execution processes. Traditionally, strategies would be formulated with the understanding that these would then guide the organization’s behaviour for prolonged periods of time (months, if not years). Strategies would consequently be revised/re-formulated on an infrequent basis.

IV. Conclusions and Recommendations

In financial service sector, particularly in banking activities, globalization increased management’s need for sustainable competitive advantage.

In this context, this study puts forth a comprehensive model proposal for the performance evaluation of the banking system whose effective and productive performance is measured by using the process of SWOT analysis for Banking Industry in Iraq. Accordingly, the study recommends:

1. We strongly recommend Iraqi banks in Iraq to bring innovation and inventions in their products and service delivery, which can be attained by deep study of customer behavior in Iraq (Omran, 2015).
2. To possess and sustain a competitive advantage, Iraqi banks should take great care of carrying out SWOT analysis on a continuous basis.
3. Building new capabilities and competition awareness shall also be the driving force for further service development and business partnerships.
Sustainable Competitive Advantage for Banking Industry in Iraq: A Suggested Models

4. The Iraqi banks must work hard to build and sustain their competitive advantage and be prepared for the next wave of market reforms and restructuring by applying new methods of information technology and upgrading the skills of staff and management.

References


IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with Sl. No. 4481, Journal no. 46879.

Sustainable Competitive Advantage for Banking Industry in Iraq: A Suggested Models