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Assessment of business strategy: implication for Indian banks

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Abstract

Purpose – The purpose of this paper is to explore the business strategy and its strategic orientation in the context of Indian banking sector. While past research has focussed on internal factors, organizational performance and organizational design, present research intends to fill the gap by assessing the strategic archetypes for Indian banking.

Design/methodology/approach – A review of literature resulted in 14 items covering various aspects of strategy orientation. A structured questionnaire was used to obtain insights from bank managers. The study is based on responses received from 330 banking officials working in various functional areas of banks in India.

Findings – Using factor analysis, the 14 items are reduced into four major factors: competition, cost, innovation and customer need. In terms of strategic preferences, the finding indicates that respondents have given higher rating for both market share (25 percent) and new products (25 percent), followed by cost (16 percent), competition (15 percent) and service (13 percent).

Originality/value – With the dominant preference for market share and new products, authors proposed a market share-new product matrix and identified four quadrants: low return, resource constraint, complacency and optimal performance. The study offers guidance to managers to frame and assess the bank strategy.

Keywords Innovation, Competition, Strategic orientation, Business strategy, Customer need, Indian banking

Paper type Research paper

1. Introduction

Business strategy has created interest among practitioners and academicians. The subject of strategy has been studied in various contexts. While strategy has been extensively studied, there is scant research available in banking industry in the context of emerging country. Business strategy typologies are frameworks that are linked to generic competitive strategies available to business units and strategic groups are industry specific phenomenon. Strategy group clusters identify cluster of business employing a common generic strategy. The concept of strategy groups is not only relevant to group of businesses adopting similar competitive strategy, but it is connected to clear and definite industries. Although on a narrow industry level, some firms are closer to cost leadership strategy while other firms are related to differentiation strategy (Parnell, 2010). It is argued that a particular industry relates to a given strategy typology. For example, fast food industry on a broader context

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follows cost leadership strategy. Information technology follows differentiation strategy. On the same premise, we hold that banking industry would be linked to a given strategic orientation. Therefore, there is a need to examine strategic orientation in banking industry.

While adopting a contingency perspective, the study concluded that structural characteristics, strategic behavioral emphasis and business strategies influenced firm performance (Olson *et al.*, 2005). They suggested that various strategic orientated behaviors include customer orientation, customer orientation, innovation orientation and internal/cost orientation. Researchers have shown keen interest in strategic orientation and analyzed its antecedents and consequences. Various studies have explored the role of customer orientation (Kohli and Jaworski, 1990; Slater and Narver, 1995; Kurmet and Vadi, 2013), competitor orientation (Bendle and Vandenbosch, 2014; Prabhu and Stewart, 2001; Dickson and Urbany, 1994; Leeflang and Wittink, 1996; Montgomery *et al.*, 2005), innovation orientation (Slater and Narver, 1995; Rubera and Kirca, 2012) and internal/cost orientation (Treacy and Wiersema, 1993; Porter 1985; Kumar *et al.*, 2011). Past studies have examined strategy for banking industry (Batiz-Lazo and Wood, 2003; Pleshko 2007; Misra and Arrawatia, 2013; Reddy *et al.*, 2013, 2014; Pleshko *et al.*, 2014). There is a need to investigate strategic orientation in detail, explore which are the relevant factors for banking industry, and assess the relative importance of strategic orientation.

The paper offers significant contributions. First, it intends to examine the strategy orientation in banking context. In the light of various strategic orientations, it is required to assess the relative, importance of strategic orientation. Second, the study validates the strategy orientation. Third, the importance of internal customer is underscored in various studies, particularly in service industry context. Since banking is a service industry, we argue for the relevance of ascertaining the viewpoints of employees on strategy dimensions. The study is based on employee perceptions. Fourth, the study is of interest to existing banks and new banks in India that are likely to enter into banking sector through payment banks or niche banks. It provides the nuanced and deeper understanding to the strategy orientation for banking industry in Indian context. The present study intends to assess the type of strategies orientation that is observed in Indian banking. Hence, it assumes a greater importance as India is expected to play a crucial role in the global arena. The findings may benefit not only the bankers from India but bankers from other parts with an interest in banking in an emerging country as well.

The remaining part of the paper is structured as follows. Section 2 provides review of literature wherein studies in the context of strategic orientation are explored. Section 3 presents the implication to banking industry. Section 4 presents hypothesis development. Section 5 describes methodology wherein there is a description for objectives of the study, selection of measures and assessment of reliability. Section 6 presents in detail the factor analysis in which details of factor analysis, exploratory factor analysis, confirmatory factor analysis (CFA) and validity tests are provided. Section 7 offers the discussion, managerial implications, limitations and further research. Section 8 concludes the paper.

2. Literature review

We review the literature majorly in the streams of business strategy, banking structure and banking competition with specific reference to India. Business strategy refers to how firms compete in an industry or market (Varadarajan and Clark, 1994;

Walker and Ruekert, 1987). The origin of strategic management as a discipline can be traced to the branch of microeconomics known as industry organizations (Bain, 1956; Mason, 1939). Buzzell *et al.* (1975) placed emphasis on three broad strategic approaches: building, holding and harvesting. Utterback and Abernathy (1975) focussed on performance maximization, sales maximizing and cost minimization. Miles and Snow (1978) typology focussed on the intended rate of product-market change, Porter (1980) typology relied on customers and competitors. Miles and Snow (1978) identified four strategic archetypes which were: first, prospectors with a focus on exploiting new product and market opportunities; second, defenders intending to create a stable set of products and customers; third, analyzers is the intermediate position between prospectors and defenders and fourth, reactors who do not have a consistent response to problems. Abell (1980) focussed on the concept of differentiation and focus/niche orientation. Porter (1980) proposed that business strategy can be seen in the context of customer value and its competitors (differentiation and low cost) and its scope of market coverage (focussed and market wide).

Various strategic orientation such as customer orientation (Deshpande *et al.*, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990), competitor orientation (Armstrong and Collopy, 1996), innovation orientation (Hurley and Hult, 1998) and internal/cost orientation (Porter, 1980) were studied. Customer orientation, the manifestation of the marketing concept by employees, has been the subject of research for the past many years. Better understanding of customer needs can benefit firms to engage in activities that generate, disseminate and respond to information about customers, competitors and overall market (Jaworski and Kohli, 1993; Narver and Slater, 1990). Market-oriented firms strive to understand and satisfy customer's latent needs and expressed needs (Kohli and Jaworski, 1990; Slater and Narver, 1995). Competition orientation is focussed on beating the competition rather than maximizing profits (Bendle and Vandenbosch, 2014). The need to assess the motives, intentions and actions to formulate effective has been studied (Czepiel, 1992; Porter, 1980). Competition orientation is focussed on beating the competition rather than maximizing profits (Bendle and Vandenbosch, 2014). The need to assess the motives, intentions and actions to formulate effective strategies has been studied by Czepiel (1992). Extensive studies have been conducted assessing in the context of competition in the major market actions (Prabhu and Stewart, 2001), price cuts by competitors (Dickson and Urbany, 1994; Leeflang and Wittink, 1996). Montgomery *et al.* (2005) found that managers do not devote a significant amount of time and resources to making assumptions of competitor moves, resulting in a rare capability among firm. Burns and Stalker (1961) defined innovation as the ability of the organization to adapt or implement new ideas, processes and products successfully. According to Slater and Narver (1995), innovation process is affected by market orientation, learning orientation, innovativeness and innovative capacity. Innovative firms gain by responding to the environment and developing better capabilities that result in competitive advantage and superior performance. Porter (1985) suggested that cost advantage is derived from internal orientation. The firm associated with cost advantage reduced cost in primary activities, such as logistics, operations, sales and marketing and support activities, including administrative, procurement, research and development activities. According to Treacy and Wiersema (1993), the focus on cost orientation resulted into higher sales and higher margins.

Walker and Ruekert (1987) suggested a hybrid model that combine two models and typology are presented as prospectors, low cost defenders and differentiated defenders.

Studies (Conant *et al.*, 1990; McDaniel and Kolari, 1987; Mckee *et al.*, 1989; Slater and Olson, 2000) have shown that prospectors are the most marketing oriented of the strategy archetypes. Prospectors continuously develop innovative new products and make an entry into new markets. While prospectors are involved in conducting market experiments, learning from the results of those experiments and modifying their efforts on the basis of knowledge and insights, analyzers rely on improved versions of products (Lynn *et al.*, 1996; Vorhies and Morgan, 2003). Miles and Snow (1978) concluded that analyzers focus on locating new product or market opportunities as well as on promoting the sale of the organization's traditional products or services. The low cost defenders rely on providing quality products at the lowest overall cost. Lesser cross-functional involvement is observed in low cost defenders (Ruekert *et al.*, 1985; Walker and Ruekert 1987).

The role of strategies in achieving the objectives is studied by Slater and Olson (2001) and Walker and Ruekert (1987). Coordination among organizational sub-system is completed through management policies and practices, which in turn has a relation with set of goals or objectives that a firm follows (Luthans and Stewart, 1977). Vorhies and Morgan (2003) examined the relationship among marketing organization structure, business strategy and performance. Olson *et al.* (2005) have examined the relationship between marketing organization structure and strategic behavior. Walker and Ruekert (1987) suggested that firms that business strategies exhibit typical structural designs. Structure plays an important role in determining strategy success. Using study of 277 retail businesses in USA, the study confirmed that the combination of strategy was associated with higher performance in some instances. It was observed that firms with high and low strategic clarity performed better than firms with moderate strategic clarity (Parnell, 2010). Organizational structures played an important role in coordinating work that has been divided into smaller tasks.

3. Implications to banking industry

Based on a study on bank profitability for South Asian countries, the findings revealed that though competition exerts negative pressure on bank profitability and high industry concentration allowed banks to earn higher profits. It has been observed that well-capitalized banks are more profitable (Perera *et al.*, 2013). Using the technique of stochastic frontier analysis, the findings suggested that exposure to market discipline through partial privatization is an effective way of improving performance of state owned banks (Sarkar and Sensarma, 2010). The study by Nayak and Nahak (2011) analyzed the performance of public sector banks in India during the post-liberalization using various accounting ratios analysis and principal component analysis (PCA). The findings indicated that reform measures have impacted positively in improving the stability and soundness of the public sector banks in India. Performing banks secure the higher position across the dimensions of acquiring and retaining customers (Symonds *et al.*, 2007). The best bank are those that are able to manage strategic challenges effectively through a customer focus, improving products, better pricing and ensuring a proper information architecture (Jagersma, 2006). It is observed that systematically large banks are subject to greater market disciplines (Bertay *et al.*, 2013).

The competitive condition in the Indian banking sector has been changing since the year 1994 when privatization was allowed in the industry. However, big banks with market share of more than 1 percent have been exercising some degree of price mark-up over their marginal cost (Misra and Arrawatia, 2013). Various studies have examined the impact of global financial crisis and concluded that India, as an emerging country, was at better position than other developed countries (Bapat, 2012; Reddy *et al.*, 2014). For the year 2012-2013 in bank deposits market, State Bank of India and its' associate bank had a market share of 22 percent, Nationalized banks had a market share of 53 percent, foreign banks had a market share of 4 percent, regional rural banks had a market share of 3 percent and private sector banks had a market share of 19 percent. Because of globalization and liberalization, the impact is felt in banking sector. Reddy *et al.* (2013) investigated merger of Axis Bank-Enam securities.

4. Hypotheses development

Because of decrease in profit margin and addition of new market players, banks are required to focus their attention on customer centricity, customer satisfaction and loyalty (Rust *et al.*, 2000; Klimontowicx, 2014; Zablah *et al.*, 2012; Bapat, 2014; Klimontowicz 2014). Extensive studies are conducted in the area of cost efficiency (Ping-wen, 2002; Casu and Girardone, 2002), innovation (Cherchem, 2012; Wang, 2010) and competition (Batiz-Lazo and Wood, 2003; Armstrong and Collopy, 1996; Montgomery *et al.*, 2005; Armstrong and Green, 2007) in the context of banking.

Changing consumer behavior and attitudes play an important role in bank's distribution strategy choice. Studies indicate that customer-oriented firms focus on explicit and implicit needs of both current and potential customers (Deshpande *et al.*, 1993; Kohli and Jaworski, 1990; Narver and Slater, 1990; Day, 1984, 1990, 1994a, b). The study by Mohammad and Djouhara Ali (2011) confirmed that internal marketing, organizational commitment and organizational citizenship behaviors had a positive direct effect on bank's marketing orientation. The study suggests the positive relationship between leadership and organization in the context of market orientation (Kurmet and Vadi, 2013). There is view that strategists ignore performance factors (Carroll, 1982). While it is easy to claim that "the customer is king," companies are finding it harder to follow (Thompson, 1998; Bapat, 2014).

H1a. Customer orientation is a factor for business strategy in banking context.

As a result of deregulation and opportunities that technology offer, new competitors whose main activity is not banking and finance are entering into the sector. Various entities such as supermarkets, insurance companies, car manufacturers, internet companies and other entities have penetrated into the financial market (Román González and Mario Martínez (2004). It is clear that banks need to transform their existing strategy to bring more relevance to its customers. Firms, with competitive orientation, rely on targeted competitors' goals, strategies, offerings, resources and capabilities (Day and Nedungadi, 1994; Porter 1980; Kohli and Jaworski, 1990). They show inclination for developing competitor-oriented objectives rather than economic or customer-oriented objectives (Armstrong and Collopy, 1996). Studies have investigated competitor orientation for banking industry (Román González and Mario Martínez, 2004).

H1b. Competitor orientation is a factor for business strategy in banking context.

To create a differentiation, firms pursue radical or discontinuous innovations (Christensen and Bower, 1996; Lynn *et al.*, 1996). Such firms are keen to proactively pursue ideas (Hurley and Hult, 1998) in diverse domains (Jin *et al.*, 1998). Such firms with higher innovation capabilities develop radically new products (March, 1991). Various frameworks, such as Theory of Reasoned Action and Technology Acceptance Model, contribute to literature of innovation in banking. We argue for the relevance of innovation orientation for banking sector.

H1c. Innovation orientation is a factor for business strategy in banking context.

Porter (1980) argues another source of differentiation is cost advantage, resulting in improving efficiency in all parts of their value chain (Porter, 1985; Treacy and Wiersema, 1993; March 1991). Exploitation facilitates the firm to realize improvements as it drives down the learning curve (Alberts, 1989). However, over-reliance on exploitation may stifle adaptation as market conditions change. Ping-wen (2002) explored cost efficiency for commercial banks.

H1d. Cost orientation is a factor for business strategy in banking context.

5. Methodology

The study sample consisted of employees drawn from banking industry in India. The primary data were collected through the method of convenience sampling. To ensure national representation of employees, it was decided to approach respondents at a national banking training center in India. The respondents were working in various functional areas such as branch banking, marketing department, planning and control department, forex department, recovery department, credit department, publicity and administration and international banking. Care was taken to contact participants attending diverse programs. Respondents were drawn from head office, regional/zonal office and branches. Since the surveys were held in national institute, participants represent from diverse regions spanning northern, eastern, western and southern areas. Since our sample covered majority of functional departments and branch officials, it depicts a representation of banking industry. We contacted 395 officials and 330 usable responses were obtained. The study intends to extend the research conducted by earlier researchers and apply it to Indian banking. The sample represents the banking industry in India.

The objectives of the study are:

(1) to identify the crucial factors of strategy orientation in the context of Indian banking industry;

(2) to explore an instrument to measure employee perceived strategy with a special focus on banking sector using exploratory factor analysis; and

(3) to empirically test the proposed instrument using a CFA and meeting the requirements of reliability and validity.

5.1 Design of survey instrument

A 14 items questionnaire was used during the study. The items were developed through review of literature and based on inputs from subject experts. The measures were subjected to evaluation from experts who were closely associated with the banking industry. These items were evaluated on a five point Likert scale, ranging from 1: "strongly disagree" to 5: "strongly agree" (Boulding *et al.*, 1993; Babakus and Boller, 1992).

5.2 Selection of measures

We developed a questionnaire to assess various dimensions of changing product preferences, competitor activities, role of technology, financial solution and cost. We referred scales to address customer-oriented behavior (Narver *et al.*, 2004; Olson *et al.*, 2005), competitor-oriented approach (Narver and Slater, 1990; Olson *et al.*, 2005), innovation-oriented approach (Hurley and Hult, 1998) and internal cost approach (Homburg *et al.*, 1999; Kotha and Vadlamani, 1995; Olson *et al.*, 2005). These scales address the relevant hypotheses that were studied. Studies from Hooley *et al.* (2000) and Ward *et al.* (2006) have validated the scales in their academic researches. We selected this scales as they were robust and used by past studies. It is observed that these scales were not applied in Indian banking industry. The scales were shown to three banking experts who confirmed its applicability specific to banking industry in Indian context. Following items were selected for factor analysis and the Table I summarizes the source of items.

5.3 Assessment of reliability

The 14 structure variables are subjected to a factor analysis using principal factors, followed by varimax rotation. The reliability of items was assessed by computing the coefficient α (Cronbach, 1951). Cronbach α is used to measure internal consistency of items. According to Nunnally (1978), coefficient α value of more than 0.70 is acceptable. We calculated the α coefficients for various measures which ranged from 0.708 to 0.753 indicating good consistency among the items within each dimension. Overall reliability measure was found to be 0.738, indicating that data are reliable.

6. Factor analysis

Factor analysis helps in identifying factors that explain correlations among a set of variables, reducing the large number of variables into a smaller number of variables and determining the number of dimensions (Kim and Mueller, 1978; Harman, 1967;

Table I.
Summary of items

Orientation	Items	Source
Customer orientation	In present banking scenario, customer product preferences change rapidly	Narver *et al.* (2004), Olson *et al.* (2005)
	Our customers regularly ask for new products and services	
	Bank is increasingly offering financial solution to customers	
	Our bank continuously trying to discuss additional needs of customers	
	We regularly discuss how customers use our products and services	
Innovation orientation	Banking is witnessing major technological developments	Hurley and Hult (1998), Olson *et al.* (2005)
	Many innovations are possible with technology	
	Management actively seeks innovative ideas	
	Innovation is accepted in our bank	
Competitor orientation	Employee throughout the organization discusses competitive activities	Narver and Slater (1990), Olson *et al.* (2005)
	Our people regularly collect competitor activities	
	We evaluate the key strength and weakness of key competitors	
Cost orientation	Reducing cost becomes top priority	Homburg *et al.* (1999), Kotha and Vadlamani (1995) and Olson *et al.* (2005)
	We look for business process that reduces cost	

Afifi and Clark, 1984). Factor analysis was performed to reduce the 14 items. The appropriateness of factor analysis was assessed by checking the significance of Bartlett test of sphericity and by examining sampling adequacy through Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy at an overall and individual item level (Hair *et al.*, 2006). Factor analysis of 14 variables was performed using PCA and varimax with Kaiser normalization rotation method. In order to explore the underlying dimensions related to strategy, explanatory factor analysis was used. The rotated component matrix reveals four factors.

While explanatory factor analysis determines the factor structure, CFA determines the number of factors and finds out which items load on each factor. Exploratory factor analysis has been used to explore the possible underlying factor structure of a set of observed variables. CFA is a statistical technique to verify the factor structure of a set of observed variables. It is clear that explanatory factor analysis determines the factor structure and CFA verify the factor structure. To confirm the four dimensional factor structures, we applied CFA to assess the latent factor structure. CFA involves the estimation of one or more hypothesized models of factor structure and provides enhanced control for assessing unidimensionality. It has better construct validity than explanatory factor analysis (Siddiqui and Sharma, 2010).

6.1 Exploratory factor analysis

Appropriateness of factor analysis can be performed by sampling adequacy through KMO statistic. According to Kaiser and Rice (1974), KMO value greater than 0.6 is considered adequate. The Bratlett test confirms that the values are significant and acceptable. The items were individually subjected to PCA with varimax rotation and Kaiser normalization using SPSS 21.0. The results are shown in Table II.

We find that Barlett's test of sphericity is significant ($p < 0.000$). It explains that there is sufficient reason to proceed with the analysis. According to Kaiser criterion, only first four factors should be used because subsequent eigenvalues are less than 1. These four factors contribute to 61 percent of the total variance. The Table III describes factor solution and Table IV presents rotated component matrix. We have used PCA method for factor extraction.

Catell (1966) suggested criteria based on the screen plot. In the final factor solution, a four-factor solution emerged. In our study, we selected variables whose values are more than 0.50 (Hair *et al.*, 1995). Due to lesser loading than the acceptable level, we dropped the item no. 3, 5, 6, 7 and 11. These four factors accounted for close to 61 percent of the total explained variance. Hair *et al.* (2006) suggested considering any solution with over 60 percent of the explained variance (Child, 1990). In total, 14 items were grouped and four factors were extracted through SPSS analysis. Factor 1 comprises competition orientation, factor 2 relates to cost orientation, factor 3 includes innovation and factor 4 refers to customer orientation. Competition orientation contributes to 21 percent of variance; cost orientation relates to 15 percent of variance; innovation orientation contributes to 13 percent of variance and customer orientation contributes to 12 percent of variance.

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.612
Bartlett's test of sphericity	Approx. χ^2	234.777
	df	91
	Sig.	0.000

Table II. KMO and Bartlett's test

Component	Initial eigenvalues Total	% of variance	Cumulative %	Extraction sums of squared loadings Total	% of variance	Cumulative %	Rotation sums of squared loadings Total	% of variance	Cumulative %
1.	3.668	26.198	26.198	3.668	26.198	26.198	2.960	21.141	21.141
2.	1.857	13.266	39.464	1.857	13.266	39.464	2.063	14.737	35.878
3.	1.710	12.212	51.676	1.710	12.212	51.676	1.841	13.149	49.027
4.	1.308	9.340	61.016	1.308	9.340	61.016	1.678	11.989	61.016
5.	0.994	7.101	68.117						
6.	0.902	6.442	74.560						
7.	0.853	6.093	80.652						
8.	0.664	4.741	85.393						
9.	0.500	3.572	88.965						
10.	0.427	3.051	92.016						
11.	0.408	2.912	94.928						
12.	0.324	2.313	97.240						
13.	0.226	1.613	98.853						
14.	0.161	1.147	100.000						

Note: Extraction method: principal component analysis

Table III.
Factor solution

	Component 1	2	3	4
1. Product_Preferences	0.130	0.074	0.025	*0.807*
2. Customer_Request	−0.134	0.014	0.027	*0.717*
3. Bank_Technological	0.061	0.393	0.394	0.172
4. Innovations_Tech	−0.104	0.001	*0.814*	−0.032
5. Bank_Financial_Solution	0.484	0.060	0.385	0.460
6. Bank_Additional_Need	0.339	0.453	0.225	0.173
7. Customers_Use	0.448	0.362	0.441	0.073
8. Employees_Competition	*0.598*	0.098	0.267	−0.241
9. People_Competitor	*0.839*	0.060	−0.075	−0.225
10. Strength_Weakness_Competition	*0.805*	−0.035	−0.231	0.176
11. Management_Innovative_Ideas	0.369	0.144	0.219	0.257
12. Innovation_Accepted	0.303	−0.083	*0.501*	0.117
13. Reducing_Cost_Priority	0.110	*0.730*	−0.434	−0.123
14. Process_Cost	−0.015	*0.814*	−0.113	−0.002

Note: Extraction method: principal component analysis; Rotation method: varimax with Kaiser normalization

Table IV.
Rotated component matrix[a]

6.2 Validity tests

Some of the important validity tests are content, construct, discriminant and criterion-related validity. The content validity is referred to the degree to which the measure spans the domain of the construct's theoretical definition (Rungtusanatham, 1998). In our study, subject experts ensured content validity through review of questionnaire. Convergent validity refers to the degree to which multiple methods of measuring a variable provide the same results (O'Leary-Kelly and Vokurka, 1998). Scale with values of 0.90 or above shows strong evidence of convergent validity (Bentler and Bonett, 1980). The calculated values such as Comparative Fit Index (CFI), Bentler-Bonett coefficient and Goodness of Fit Index (GFI) of more than 0.90 indicated strong convergent validity.

Criteria validity is established when a criteria, external to the measurement instrument, is correlated with the factor structure (Nunnally, 1978; Seth *et al.*, 2008). In the present study, criteria validity is established by correlating the various strategy factors with overall strategy. The correlations are presented in the Table V, which indicates that all the individual factors have significant positive correlations with overall strategy. Thus, criteria related validity is established for all dimensions.

6.3 CFA

Using structural equation modeling, we further executed CFA using AMOS 21. CFA is associated with enhanced control for assessing unidimensionality than exploratory factor analysis. The results are shown in the form of path diagram in Figure 1.

Our analysis indicates that CMIN value is less than 5 and values of GFI (0.874), AGFI (0.861) and CFI (0.898) were high. The above results show the relevance in terms of its application. Respondents were also asked to give the ranking according to their preference for major strategy variants such as market share, new products, cost, better customer service and competition. The analysis of first preference is shown in the Table VI.

Table VI depicts that respondents have given higher and equal weightage to maintaining market shares and developing new products as the strategy archetypes that are more favorable than other strategy archetypes. We can relate maintaining market share as the defensive strategy whereas developing new product can be considered as growth strategy. It is followed by the preference for improving cost efficiency. This has happened due to an increase in competition which has resulted in decrease in margins. As a result, there is a pressure on banks to improve efficiencies in cost. Banking industry is facing competition from both peer banks and non-banking players. For examples, in card payments market, higher importance is attached to entities such as networks, switch solution providers, specialist companies, card management solution, reconciliation companies, merchant aggregators and analytic companies.

7. Discussions

This study has important implications for managers and scholars. The purpose of this study is to determine strategic orientation in Indian banks. The study is based on responses from employees who were drawn from different banks. Various strategic orientations, such as customer orientation, competitor orientation, innovation orientation and internal/cost orientation, have been studied in the context of other industries. The study by Pleshko (2007) investigated the structural characteristics for banking firms, particularly credit union.

It is pertinent to take a view on application of business strategy for banking industry in India. We find that little research exists for Indian banking industry, which

Factor 1	0.662
Factor 2	0.504
Factor 3	0.500
Factor 4	0.455

Table V. Correlation among factors and external criteria

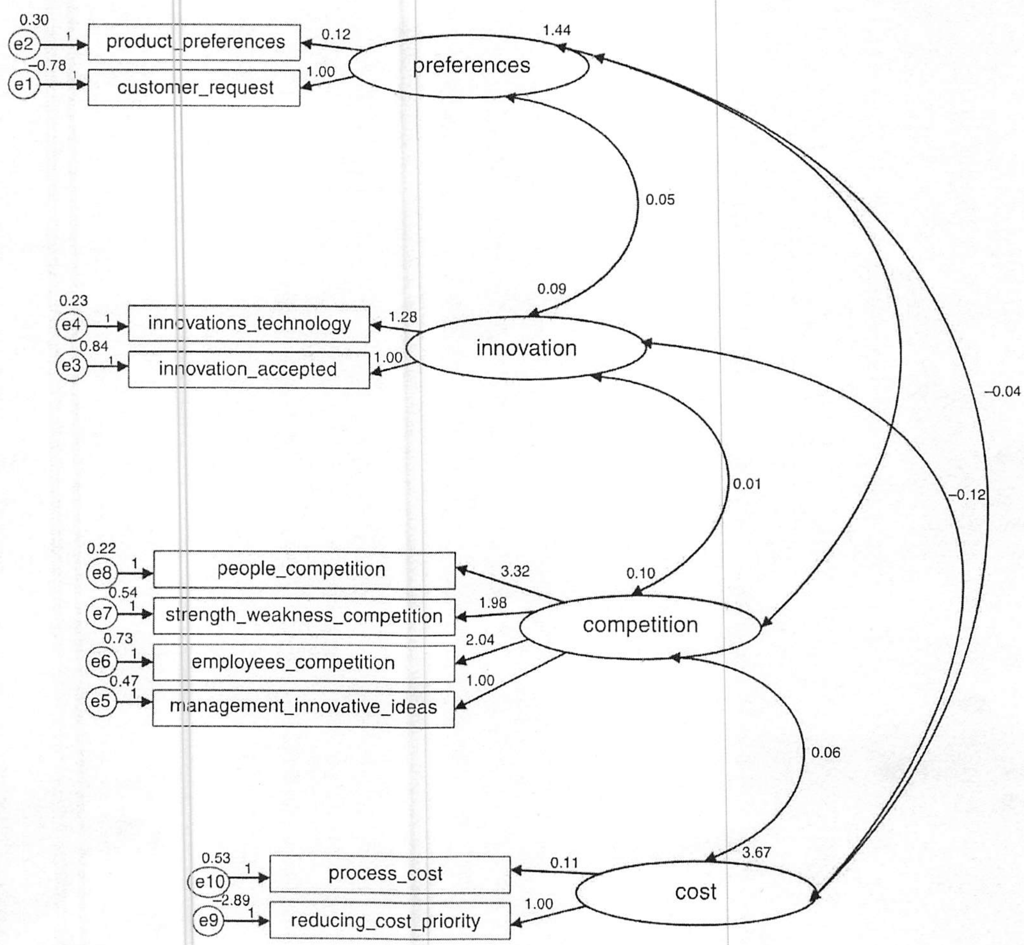

Figure 1.
Path diagram

Table VI.
Strategy preference

	Figures in %
Market share	25
New products	25
Cost efficiency	16
Competition	15
Service	13

has witnessed significant growth rates, resulting in an impressive performance in the last decade. Bapat (2013) concluded that bank deposits for Indian public sector banks grew by 18 percent and advances increased by 20 percent, resulting in an overall business growth of 18.7 percent for the period 2007-2013. This happened despite marginal increase of 5 percent in bank offices and 1 percent in bank employees.

Factor analysis was deployed to assess the business strategies as perceived by bankers. In total, 14 items were reduced into four factors, which were extracted through SPSS analysis. Factor 1 comprises competition orientation; factor 2 associates with cost orientation; factor 3 relates to innovations and factor 4 relates to customer need. The study, based on factor analysis, accept the hypotheses that competitive orientation, cost orientation, innovation and customer need orientation are relevant factors for business strategies in the context of Indian banking. Competition orientation contributes to 21 percent of variance; cost orientation relates to 15 percent of variance; innovation orientation contributes to 13 percent of variance and customer orientation contributes to 12 percent of variance. Higher variance of competition orientation indicates that competition is exerting pressure on bank profitability. The impact of competition is felt on the performance, as there is reduction in net interest margins and dip in bank profitability measure, which is calculated through return on assets. The study points out that competition orientation and cost orientation dominate the Indian banking industry. In an environment of higher competitive intensive, there is a desire to differentiate. Banks tend to pursue lower degree of strategic orientation in case where environment is characterized by lower competitive intensity. In India, banking sector has been subject to entry of private sector in the year 1994, 2004 and 2014. Although banks can claim about pursuing competitive orientation, it is important to assess whether banks are equipped with relevant competitive information and how they use the competitive information. With the pressures on net interest margins, banks are confronted with the challenge of maintaining the costs below the benchmark positions.

With an objective to improve financial inclusion by providing small savings and payment/remittance services to migrant labor force, low-income households, small business and other entities, Reserve Bank of India released guidelines for licensing of payment banks on Nov 27, 2014. As a result, the competition will be further intensified by the entry of existing non-bank pre-paid instruments, commercial banks making a joint venture with promoter group and promoter group. The activities will include acceptance of demand deposits, issuance of ATM/debit cards, remittance services, business correspondents of another bank and distribution of non-risk sharing simple financial instruments like insurance and mutual funds. While analyzing cost-income ratios of 28 public sector banks for the year 2013-2014, we find that only two banks are within benchmarks ratio of 40 percent, which is measured through cost-income ratios. In case of 20 private sector banks for the year 2013-2014, we find that only three banks are within the benchmark limits. So, it is quite evident that there is cost pressure and as a result, there is cost orientation. The study by Foreman *et al.* (2014) concludes that customer orientation leads to superior financial performance and competitor orientation is not positively related to firm performance. We, therefore, suggest banks need to focus more on customer orientation and transformation model need to address the importance of customer orientation.

Respondents showed preference to maintaining market shares and developing new products. It is followed by the preference for improving cost efficiency. This has happened due to increase in competition, which has resulted in decrease in margins. Banks are not only facing competition from peer banking players but also from non-banking players. Furthermore, Reserve Bank of India is likely to offer banking license to new banking players. Two entities were given the license in the last year and 26 entities applied for the bank license. This clearly shows greater interest of entities from other sectors. Avenues are available to make entry through payment banks. In future, it is likely that non-banking players will exert competitive pressure to the incumbent banking organizations.

7.1 Managerial implications

Respondents stated a dominant preference for "maintain the market share" and "developing new products," a grouping of defensive and prospector strategy, respectively (Miles and Snow, 1978). Ansoff (1965) offered product-market matrix and represented four quadrants – penetration, product development, market development and diversification. By focussing on market share and new products, there is a need to analyze various situations. We represent relative market share and new products in Figure 2. In the matrix, four quadrants are presented where the banks can position themselves into two major variables: market share and new products.

Quadrant 1 refers to resource constraint when both market share and new products are on lower side; the bank is taking a low risk. This zone is marked by high cost and low service. Because of supply bottlenecks, the bank may face pressure to maintain higher margins as compared to that of other players. Low service may encourage customers to switch to other banks. The organization may face competition with low performers.

Quadrant 2 refers to a low return. The quadrant is characterized by lower market share and higher proportion of new product. The risk taken is that in case of product failure; the bank can face financial implications. Since the new product is high, it is likely that it would result in service advantage, resulting in an increased convenience to its customers. This may attract new customers. It is challenging for such organizations to keep technological investments in control. However, there is an advantage to organization in terms of low transaction cost for banks with a focus on technological products. The major competitors include banks and institutions which offer superior service levels. Firms from other industries with disruptive technology may attract the captive customers.

Quadrant 3 refers to a status of complacency where the market share is high and new product is low. The risk here is that the bank may be overtaken by innovators desirous of establishing competitive advantage. Since new product is on lower side, such organizations may lose service advantage which they enjoyed in the past and resulted in higher market share. Such organizations have to cope with comparatively higher cost to income ratio. Performing banks with excellent new product capabilities have moved ahead by adding significant customers from this group, resulting in achieving higher market share.

Quadrant 4 refers to the status of growth with increasing market share and new products. The risk is to sustain the position which can be overcome by remaining alert to the moves of the business environment. The zone is characterized by superior service

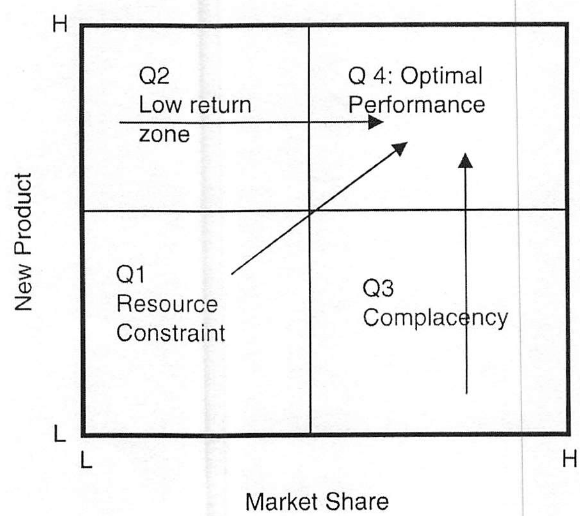

Figure 2.
Market share-new products matrix

levels and is marked by lower cost as significant customers use channels that result in reduced transaction cost. It is likely that there are fewer institutions that occupy a status of high market share and new products.

7.2 Limitations and further research

We identify the following limitations for the study. Given that, banks have an option to select a strategic orientation or a dominant combination of strategic orientation, the question arises as to which strategic orientation has a relationship to better performance. The study is based on subjective perception of managers from different banks. Future research can add to the literature in various ways. There is need for a study to assess the linkage of strategic orientation to groups such as public sector banks, private banks, big-size banks, mid-size banks and smaller banks. For example, Pleshko (2007) studied strategic characteristics for credit unions. In future, a study can look into how competitor reacts to a given strategic orientation. It can further validate the strategic orientation by comparing to various established benchmarks and obtaining responses from customer and competitor.

The use of convenience sampling has some inherent weaknesses. Respondents were informed that the survey was academic in nature. There is a possibility that respondents may be influenced by bias toward giving desirable responses. Although care has been taken to involve participants from various programs, the sample may differ bank to bank as some banks may have more inclination toward certain functions and certain positions.

Future research needs to explore strategic archetypes by incorporating customer views. Customer view will provide dimensions that may be perceived differently from bank managers. Strategic orientation may be specific to a bank. Bank managers will be interested to compare their banks with benchmark banks or better performers. Another area is the assessment of factors that lead to sustainable competitive advantage in banking and exploring strategic orientation that merits attention in future. Further studies might investigate these relationships in specialized functional areas such as retail banking, payments, micro small and medium enterprises, corporate banking and other concerned departments. Comparisons are required between the related sectors such as banking, insurance, asset management, investment management and within the sector. Any further study might also look at other control variables or other strategic variables.

8. Conclusions

Factor analysis was deployed to assess the business strategies as perceived by bankers. The study, based on factor analysis, accept the hypotheses that competitive orientation, cost orientation, innovation and customer need orientation are relevant factors for business strategies in the context of Indian banking. The study, therefore, satisfies all the four hypotheses: *H1a*, *H1b*, *H1c* and *H1d*. Competition orientation contributes to 21 percent of variance; cost orientation relates to 15 percent of variance; innovation orientation contributes to 13 percent of variance and customer orientation contributes to 12 percent of variance. The study points out that competition orientation and cost orientation dominate the Indian banking industry. Based on respondents' preference for relative market share and new products, we can classify into four different quadrants: resource constraint, low return, complacency and optimal performance. Low market share and low new products characterize resource constraint; low market share and high new products represent low return; high market