

INFLUENCE OF EXTERNAL ENVIRONMENT FACTOR ON STRATEGIC MANAGEMENT IN COMMERCIAL BANKS IN ALBANIA

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Abstract

The external environment plays a critical role in shaping the future of entire industries and those of individual businesses. To keep the business ahead of the competition, managers must continually adjust their strategies to reflect the environment in which their businesses operate. The search aims to identify which are the external environmental factors that influence the strategic management of the Albanian commercial banks? Banking sector in Albania is quite new compared to other EU countries, mostly expanded during years 2000 and for the first time is facing the financial and economic crisis thus understanding the influences of the external environment is very important. The impact of Albanian economy on banks operations remained relatively high during last five years and is expected to increase slightly in the next five years. Profitability, low investment opportunities due to political and economic uncertainty were the most reported impacts of Albanian banking industry. The impacts of technology on banks operations were relatively low during last five years but, relatively high at present and expected to further increase in the next five years. Most reported impacts of technology on banks operations were new products, customer service, and network banking. Impacts of social cultural environments on banks operations were less over the last five years, then at present and also in the next five years.

Keywords: *Banking industry, strategic management, external environment, Albania*

INTRODUCTION

What can we do to make a company become successful and remain competitive in the market? It is a common question we will ask ourselves no matter what kind of businesses we are engaged in. Certainly we can not only rely on the traditional ways to insure the business safe (Wheelen & Hunger 2005). As per (Ansoff 1987) environmental changes such as technology and innovation, competition, globalization, regulation and de-regulation and consumer behavior have affected many organizations to enhance their business processes in order to survive the environment, which has become increasingly competitive. Strategic management generally addresses the question of why some organizations succeed or fail, and it covers the causes for company's success or failure (Porter 1991). One of the most important pillar in the field of strategic management is the analysis of the internal and external environment. The external environment plays a critical role in shaping the future of entire industries and those of individual businesses. To keep the business ahead of the competition, managers must continually adjust their strategies to reflect the environment in which their businesses operate. The search aims to identify what are the external environmental factors which influence the strategic management practices of Albanian commercial banks?

Research Objective

This study aims to analyze the strategic management practices of organizations in the Albanian banking sector and to analyze the impact of external environment factors (e.g. people, structure, government policies, economic conditions, etc. on this industry. The main aim of this research is to answer the question of "how the strategic management model and the evaluation of external environment of Christodoulou (1984) and Bonn (1996) can be redeveloped to the Albanian Banking Sector?"

Research questions

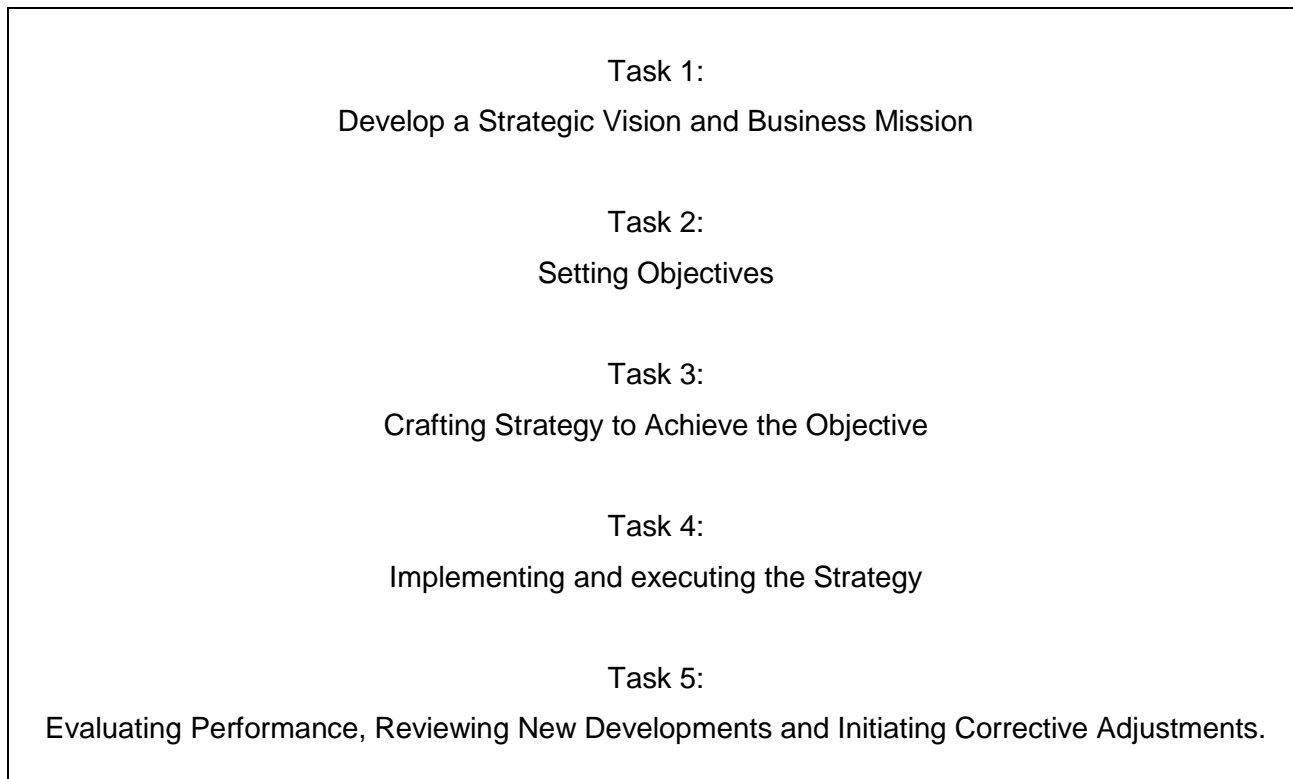
There were two major reasons to develop major research questions instead of research hypothesis. First, this research plans to investigate a large number of variables that can affect the external environment in Albanian commercial banks and therefore, it is hard to develop hypotheses for all these variables. The other reason is without any prior research it is difficult to develop hypotheses for the variables because it is hard to imagine how these variables behave in the banking environment. The literature review and the major research objectives of this research study led to the development of one major research questions i.e.:

What are the external environmental factors which influenced the strategic management practices of Albanian commercial banks?

STRATEGIC MANAGEMENT

Many research studies define the strategic management process in different ways, but the aim of the process is to build a market position strong enough and an organization capable enough to produce successful performance despite unforeseeable events, potent competition, and internal problems. For example, Thompson & Strickland (1996) identify five process tasks of strategic management as illustrated in figure 1.

Figure 1: Five tasks of strategic management



Source: Adapted from Thompson & Strickland 1996, Strategic Management – Concepts and Cases

Glueck et al (p.7, 1984) views the strategic management process as being involved with identifying environmental problems and opportunities and internal strengths and weaknesses. This step is called “Analysis and Diagnosis”. Then follows “Choice”, “Implementation”, and “Evaluation”. These three steps are concerned with generating alternative solutions to the problem, making the strategy work by building the structure to support the strategy and developing appropriate plans and policies, and getting feedback to determine whether the strategy is working or taking steps to make it work.

THE ENVIRONMENT

An organization environment defines the broad contextual background within which it operates. Understanding this general environment can help a firm identify some of the threats and opportunities it faces. Viljoen (1996) asserts that “one of the primary tasks of the strategist is the management of the interface between the organization and its external environment” However, this general environment often has an impact on a firm's threats and opportunities through its impact on a firm's more local environment. Thus, while analyzing a firm's general environment is an important step in any application of the strategic management process, this general analysis must be accompanied by an analysis of a firm's more local environment if the threats and opportunities facing a firm are to be fully understood (Barnye & Hesterley 2015). According to Johnson & Scholes (1999) environmental analysis is important for managers because of three reasons. First, managers face difficulties when trying to understand the environment because the environments consist of so many different influences. Secondly, is the uncertainty of the future that is being created by fast growing technological changes and the speed of global communication. Finally, managers are human beings that can make errors and therefore, the need to reduce the complexity of the environment by the use of environmental analysis methods.

External Environment

Analysis of external environment helps organization to understand their external environment and Hitt, Ireland & Hoskisson (2005) note that when the firm's understanding of the external environment is matched with knowledge about its internal environment it helps to form the company's strategic intent, strategic mission and also to create strategies. External environmental scanning is to identify and evaluate trends and events beyond the control of the organization (Fred 1997). It helps the organization to identify the opportunities and the threats that exist in the environment. Hitt et al (2005) divide the external environment into three major categories namely the general, industry, and competitor environments. The general environment has a number of dimensions such as political/legal, technological, socio cultural, global, demographic which represent the broader society that can influence an industry and the firms within it. The industry environment is the set of factors that directly influence the organization and its competitive actions such as the threat of new entrants, the power of suppliers, the threat of product substitutes, and the rivalry among the competitors. Competitor analysis is about the collecting and interpreting information about the company's competitors. Hitt et al (2005) assert that the analysis of general environment focuses on the future, and the analysis of the industry environment focuses on the factors and conditions that influence the

company's profitability within its industry while analysis on competitor environment focuses on predicting the dynamics of competitor's actions, responses and intentions.

General Environment

The general environment consists of the factors that can affect the company dramatically and normally, the company has less ability to predict them and to control them (Dess, Lumpkin & Eisner 2006). Dess et al (2006) & Hitt et al (2005) divides the general environment into six major dimensions such as demographic, sociocultural, political/legal, technological, economic, and global. Most of the studies use PEST analysis to analyze the general environment which represents political, economic, sociocultural, and technological factors that can affect the firm's businesses. Johnson & Scholes (1999) claim that the major questions need to be asked when doing a PEST analysis are what environmental factors are affecting the company? which of these are the most important at the present and in the next few years? The following paragraphs will discuss the six dimensions of the general environment identified by Dess et al (2006) & Hitt et al (2005). Coulthard et al. (1996, p. 22) state that "an organization's response to its environment may be critical to its existence and business owners must understand and then attempt to dominate, control, neutralise or adapt to this external environment in order to survive." Additionally, the general environment, that which is outside the company control and happening in the broader area can be considered under the following headings (e.g. Porter 1991):

P - Political,

E - Economic,

S - Social,

T - Technological.

Political

Political and legal forces are outcomes of changes in laws and regulations, and significantly affect managers and companies. Political processes shape a society's laws, which constrain the operations of organizations and managers and thus create both opportunities and threats. For example, throughout much of the industrialized world, there has been a strong trend toward deregulation of industries previously controlled by the state, and privatization of organizations once owned by the state (Hill et al. 2013). Many research studies of environmental factors (e.g. Austin 1990; David 1997) focus on four major political variables – namely instability, ideology, institution, and international links. Austin (1990) has concentrated on the political aspect of developing countries. He found that the political characteristics might vary in countries at

different levels of economic development and that economic growth and political development does not necessarily march forward in a synchronized manner. At the same time, the political aspect could be related to the economy of the country, as the economic factors might give the government and the reigning political group more power and control over society (e.g. Freeman 1982; Miller and Friesen 1984; Porter 1980&1991; and etc.). Austin (1990) notes that government and the reigning political group in developing countries may be more sensitive to nationalism than developed countries, because of their colonial experience, economic & political dependency, instability and so forth. Thus, it can be seen that the nationalism and the type of political system developed will impact on the political process and the business environment in the specific developing country (Freeman 1982). Additionally, political institutions such as political parties and other political organizations are often unstable in developing countries (Austin 1990). This will lead to instability by failing to provide a continuous channel for political participation by the government. For instance, in the past 20 years. Albanian has had many Prime Ministers from different political parties, with each party having a different approach to managing the country. Therefore, enterprises need to consider these issues so as to evaluate their situation and the government policies that might affect their organizations.

Economic conditions

The economic climate is the overall health of the economic systems within which a firm operates. The health of the economy varies over time in a distinct pattern. Macroeconomic forces affect the general health and well-being of a nation or the regional economy of an organization, which in turn affect companies' and industries' ability to earn an adequate rate of return. The four most important macroeconomic forces are the growth rate of the economy, interest rates, currency exchange rates, and inflation (or deflation) rates (Hill et al 2013). In addition, the economic factors and the stage of country development could impact on some industries such as banking. That is, the economic crisis could possibly lead to the weakening of the country's financial system and then the financial service sectors. This view was supported by the study of Austin (1990) who found that "the relative size of the financial sector can be roughly indicated by the ratio of money supply to country's GDP, and the government tends to be heavily involved in this sector either as a regulator or as a direct operator.

Socio-cultural and Demographic

Demographic forces are outcomes of changes in the characteristics of a population, such as age, gender, ethnic origin, race, sexual orientation, and social class. Like the other forces in the general environment, demographic forces present managers with opportunities and threats and

can have major implications for organizations (Hittat al 2013).For example people now trying to quit from smoking and also trying to have balanced diets as a result of their increased education about healthy activities. This trend has affected the tobacco business companies and the food manufacturers. Hubbard (2000) asserts that sociocultural trends are difficult to capture, because change is almost invisible but claims that companies need to understand the new attitudes and trends of people to be successful in the future. In addition Understanding this basic information about a population can help a firm determine whether its products or services will appeal to customers and how many potential customers for these products or services it might have (Barney & Hesterly 2015). Hitt et al (2013) state that the major segments which need to be analyzed in demography are population size, age structure, geographic distribution, ethnic mix, income distribution etc. Albania during the last 20 years, mostly after 90-s, has faced significant changes in culture and demographic thus analyzing the impact that this factor might have is still very important nowadays.

Technological

Over the last few decades the pace of technological change has accelerated. This has unleashed a process that has been called a “perennial gale of creative destruction.” Technological change can make established products obsolete overnight and simultaneously create a host of new product possibilities. Thus, technological change is both creative and destructive—both an opportunity and a threat (Hill at al 2013). As per (Barney & Hesterly 2015) technological changes over the past few years have had significant impacts on the ways firms do business and on the products and services they sell. Meanwhile Hubbard (2000) claims that most organizations were affected by major technological changes. Charlene & Carolyn (2003) argues that when the technology of an industry changes, the firm’s approach to sourcing new technology plays a major role in building the capabilities needed to build new technical outputs. Thus analysis about the technological environment becomes vital for most companies. Thomas & Anne (1996) found that by only adopting information technology (IT) has not produced a sustainable competitive advantage for companies, but some companies gained a competitive advantage by using IT to leverage intangible, complementary human and business resources such as flexible culture, supplier relationships, planning- IT integration etc. Albanian banking industry is quite new. There are only two local banks and the remaining one are foreign groups, thus, they are strongly impacted from the changes and impact that technology might have, anyhow, it might be some restriction due to lack of culture in using the latest technological developments.

METHODOLOGY

The methodology will be explained under the major headings of population definition, survey approach, instrument development, pre test of questionnaire, final questionnaire, data collection procedure, data analysis and the framework for data analysis of the entire research study. As at 31st December 2017, there were 16 commercial banks operating in Albania and all the banks participated in the study. In previous research, Christodoulou (1984), Bonn (1996), Nimmanphatcharin (2002), and Angkasuvana (2005) they used questionnaires as their survey instruments and similarly, a questionnaire has been developed for this research study. The newly developed questionnaire is mainly based on the questions developed in Christodoulou (1984), Bonn (1996), Nimmanphatcharin (2002), Kakanamveetil (2004) and Angkasuvana (2005) studies but, redeveloped for the Albanian banking industry and the major research questions of the study. The questionnaire consists of both the open ended and closed ended questions with open ended questions designed to capture the responses when the range of responses is not known. The questionnaire of this study consists of 35 questions and 19% of the questions were open ended questions. All the 16 commercial banks of the Albanian banking industry were set as the population for this study and those 16 commercial banks include locally owned and foreign owned banks. Because of the smaller number of banks in the population, this study had to design its data collection process very carefully to encourage the banks to participate in this research. The questionnaires were fulfilled in direct interviews with high level management of the Albanian banking sector. The qualitative data analysis methods were used to analyze the data that consists of descriptions of events.

FINDINGS

Most reported current impacts of government policies were capital requirements, increase taxes in financial services, and interest rate controls. It was found that the impact of the government policies on banks operations over the last five years was reasonably high and it has increased slightly at present and is expected to further increase slightly in the next five years. Overall, the government involvements on banks operations were relatively low. Banking act and monetary policy were the most reported government involvements on banks operations and these involvements seem to be common in banking industries in every country.

The impact of Albania laws and regulations on banks operations remained reasonably high in the last five years and it has increased slightly at present and is expected to further increase slightly in the next five years. It was found that most reported impacts of laws and regulations were capital requirements, single borrowing limit, government audit requirements, non-performing loans, restructuring regulation were among the most significant impacts.

The impact of Albania economy on banks operations remained relatively high during last five years and is expected to increase slightly in the next five years. Profitability, low investment opportunities due to political uncertainty and deposit mobilization were the most reported impacts of Albanian economy on banks operations.

Impacts of social cultural environments on banks operations were more over the last five years, then at present and also in the next five years will remain in the same level. Demographic movement has shown a significant impact in the past however lately has shown stability. The impacts of technology on banks operations were relatively low during last five years but, relatively high at present and expected to further increase in the next five years. Most reported impacts of technology on banks operations were new products, customer service, and network banking and online banking. Significant changes on technology are expected for the coming 5 years.

WAY FORWARD

There are number of future directions possible to build on this study. First, a similar kind of questionnaire and research approach may be further extended to investigate the influences of the internal environment in the Albanian banking sector. In addition this study may be redeveloped in order to evaluate the influences of external environment in other financial institutions of the Albanian financial sector such insurance companies, non-banking financial institutions, leasing companies etc. Secondly, the database developed from this study provides valuable information on Albanian commercial banks for other researchers who are willing to do further research into the Albanian commercial banks and the theoretical framework and the major research questions of this study can be redeveloped to investigate other industries in Albania.

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