Assessment of the Attractiveness of the Algerian Banking Market through the Application of Porter's Five Forces Model

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ABSTRACT
This study aims to analyse the competitiveness of the Algerian banking sector by attempting to apply Porter's Five Forces model. Additionally, it examines the attractiveness of the Algerian banking market. To achieve these objectives, a descriptive approach was adopted by analysing statistics from the Algerian Central Bank and the results of previous studies. An inductive method was also used to apply Porter's Five Forces model to the Algerian banking sector. The study concluded that the banking industry in Algeria is unattractive due to the weakness and lack of implementation of all five competitive forces in Porter's model within the Algerian banking sector. However, despite this, entering the Algerian banking market could be profitable if the focus is on improving the weaknesses in the market, such as electronic banking services, financing for freelancers and startups, foreign trade, and Islamic banking services.

KEYWORDS: *banking industry, market, competition, strategy, Porter's Five Forces model.*

JEL CLASSIFICATION: *G21, L1, M1.*

1. INTRODUCTION

The banking sector plays a prominent role in advancing the economies of various developed and developing countries alike. It does so by contributing to financing various investment activities that drive development in those nations. However, the effectiveness of the banking sector is largely dependent on the level of competition within it. A fair competitive environment motivates banks to constantly strive to offer what is good and innovative, granting them a competitive edge to face internal and external challenges.

The global banking system today faces several new challenges, such as the globalisation of banking markets, liberalisation of financial services trade, increasing frequency of financial and banking crises, declining oil and fuel prices in global markets, and the repercussions of the COVID-19 pandemic, among others. These challenges have also affected the Algerian banking sector, making it imperative to develop and improve its performance as a top priority. Particularly, working in this dynamic market requires understanding the market composition and identifying effective competitive strategies to confront the aforementioned challenges.
For years, several international banks (European, American, and Gulf banks) have been studying the possibility of entering the Algerian banking market and investing in it by opening branches and agencies. This comes after their success in entering various Arab banking markets, such as Egypt, Jordan, Lebanon, the Gulf Arab states, and others.

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In this context, the management of these banks conducted several studies and research to analyse the attractiveness of the banking industry in Algeria. Among the most important models that can be relied upon in this regard is Porter's Five Forces model, which was first developed in 1979 as a simple framework for assessing the position of any company or industry and its competitive forces (Porter, 1980).

One of the primary uses of Porter's Five Forces model is to determine the attractiveness of an industry and whether entering it is a profitable venture or not (Porter, 1980). This is what this study will focus on clarifying, through the case study of the banking industry in Algeria.

Based on the aforementioned, this research aims to answer the following main questions:

- **To what extent is the Algerian banking industry attractive according to Porter's Five Forces model?**

To answer the aforementioned main question, the following sub-questions will be addressed first:

- **What are the specificities of applying Porter's Five Forces model in the banking market?**
- **What is the importance and limitations of using Porter's Five Forces model in the banking market?**
- **Is the Algerian banking market attractive and profitable for foreign banks?**

It is worth noting that the research topic is highly significant at the local level, as it contributes to filling a clear research gap in this field. Previous local studies that examine the application of Porter's Five Forces model in the Algerian banking sector are very limited. Typically, the focus is on other sectors such as telecommunications, pharmaceuticals, and hotels. On the one hand, considering the sensitivity of the Algerian banking sector, which suffers from several problems, multiple studies are required that explore modern managerial, marketing, and technological approaches to contribute to its development and performance improvement, including this study.

2. LITERATURE REVIEW

There are numerous previous studies that have attempted to apply Porter's Five Forces model in the banking industry, using it to analyse the attractiveness of banking markets and assess their competitiveness. Among the most recent of these studies is the one conducted by (Phawing, 2019), which aimed to study the impact of Porter's Five Forces on the attractiveness of the banking industry in Myanmar. To achieve this goal, a questionnaire was designed and distributed to a random sample of 50 managers and executives from five banks operating in Myanmar. The study concluded that all five competitive forces had a positive impact of 99% on improving the attractiveness of the banking industry, with the highest influence observed from the bargaining power of customers and the threats of alternative banking products.

Another study by Hussein & Muchemi (2019) sought to evaluate the impact of Porter's Five Forces model on the performance of cooperative savings and credit societies in Nairobi, Kenya. The study found that all five competitive forces had a positive impact of 53% on improving the performance of these cooperative societies, based on a survey of opinions of 80 credit monitoring managers within the studied cooperatives.

Furthermore, Mehjabeen (2018) attempted to assess the attractiveness of the banking industry in Bangladesh by applying Porter's Five Forces model. This study relied primarily on analysing statistics from the Central Bank of Bangladesh and concluded that the banking industry in Bangladesh is unattractive due to the overall weakness of the five competitive forces in the banking sector, except for the bargaining power of customers, as they are highly sensitive to changes in interest rates.

During the same year, Boaflo et al. (2018) published a study aiming to uncover the impact of Porter's Five Forces on the performance of commercial banks operating in Ghana. To achieve this objective, a questionnaire was designed and distributed to a random sample of 84 top-level employees working in three Ghanaian commercial banks. The study analysed the data using t-tests and regression analysis, and it found that all five forces contributed to improving the performance of the studied banks by influencing the competition and overall profitability of the banking industry. The bargaining power of suppliers had the most significant impact.

As for Smith (2006), the study attempted to analyse the various influential forces on the electronic banking services industry. It used an inductive approach to illustrate the specificities of Porter's Five Forces model in the field of electronic banking services within a philosophical analytical framework. The study concluded that Porter's model provides valuable insights that banks and stakeholders in the electronic banking services industry can adopt to achieve customer loyalty and sustain competitive advantages.

The current study differs from previous studies in terms of its application domain, as it focuses on analysing the extent of reliance on Porter's Five Forces model in assessing the attractiveness of the overall Arab banking markets and specifically the Algerian banking market. Previous studies that have specifically examined the application of Porter's Five Forces model to the analysis of the attractiveness of Arab banking markets, especially the Algerian market, remain very limited.

3. THEORETICAL FRAMEWORK

In the literature on economics and business management, there are several models commonly used to assess the attractiveness and competitiveness of markets. Among the most important of these models is the Porter's Five Forces model, developed by the renowned researcher in business management and competitive strategies, Michael Porter, for the first time in 1979 (Porter, 2008). He introduced it in his famous book titled "Competitive Strategy," published in 1980, and later in his even more famous book titled "Competitive Advantage," released in 1985.

The Porter's Five Forces model is defined as an illustration or statement of how competitive forces are utilised to explain the reasons for declining profitability and any additions or applicable inputs in a specific industry (Hill & Jones, 2007).
(Porter, 1985) Argues that competition in any industry (sector) is merely a result of five competitive forces. These forces play a significant role in shaping the competition within the sector, determining its intensity, and measuring its impact. The five forces include the rivalry among existing competitors, the threat of new entrants, the threat of substitute products, the bargaining power of customers, and the bargaining power of suppliers. The following diagram illustrates these five competitive forces as presented by Porter:

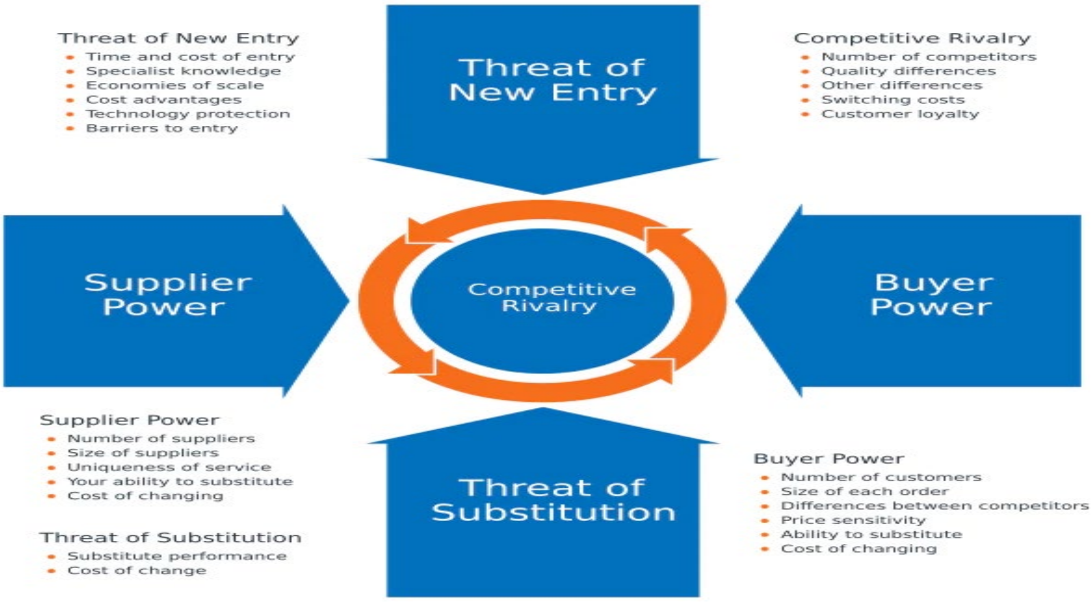

Figure 1: Porter's Five Forces Model
Source: adapted from Porter (1980), p. 4.

By applying this famous model to the banking sector, it becomes evident that the internal competitive forces in banks include:

3.1 Competition among existing banks in the banking market
Referring to the intensity of rivalry and competition among banks and financial institutions operating in the banking market, which use various tools and techniques to attract a larger customer base, such as diversifying banking services, reducing fees, raising interest rates on deposits, flexibility, and others (Ciobanasu, 2012). As shown in the previous figure, competition among existing banks is central to the other competitive forces within the banking sector, highlighting its significance and the need to focus on it (Porter, 1985).

3.2 Threat of new banks entering the banking market
New banks and financial institutions entering the market bring with them new capabilities, plans, and aspirations to dominate the market, increasing the intensity of competition in the banking market. It should be noted that the entry of new competitors into the market is associated with a set of barriers that allow them to penetrate the market and determine their level of threat (Mehjabeen, 2018). The power of new entrants has become a real threat in the banking market, especially with the popularity of international banks and the entry of non-banking institutions such as insurance companies, investment firms, major distributors, etc., into the banking world.

3.3 Threat of alternative banking products and services
In recent times, banking services have witnessed a significant diversification in terms of quantity and quality, leading to the emergence of modern banking services that have replaced traditional ones, such as financing through securities instead of traditional bank financing, and the rise of electronic banking services replacing traditional banking services (Smith, 2006), as well as banking services provided while sitting replacing services provided while standing, etc.

3.4 Bargaining power of customers

As is known, customers always seek to obtain products and services at the lowest prices and constantly negotiate to obtain new and high-quality services (Porter, 1980). The same applies to the banking sector, especially given the standardisation and similarity of banking services, and the strong bargaining position held by the customer (Duran et al., 2020), as they are the foundation of the bank's capital and a source of its profitability, making satisfying them a key to the bank's survival in the market.

3.5 Bargaining power of suppliers

Many researchers in the banking field do not consider the bargaining power of suppliers as a significant factor among the competitive forces affecting the banking industry and include it with the bargaining power of customers since the main source of the bank's funds is the deposits provided by customers. However, it should never be forgotten that suppliers of equipment, IT services, software, human resources, legal and accounting services, marketing agencies, etc., play a significant role in the success of banking operations (Mehjabeen, 2018). Thus, maintaining good and stable relationships with suppliers is crucial (Dobbs, 2014).

The analysis above shows that applying Porter's Five Forces Model in studying the banking market achieves several advantages, including (Cunnah, 2020):

- Effectively contributing to understanding the factors influencing the profitability of banks and financial institutions.
- Assisting in making important decisions in the banking industry, such as introducing new types of banking products and services, increasing the capabilities of a specific market segment, or developing competitive strategies, among others.
- Considering the life cycle of banking services, in particular, and financial institutions in general, in addition to considering changes in the characteristics of the banking sector.

On the contrary, Porter's Five Forces Model does not take into account a set of external factors that play a central role in criticising the model by many researchers and experts. Among the prominent criticisms is that Porter's model did not address the external variables affecting various industries, including the banking industry. Moreover, his model overlooks strategic alliances formed between banks and other financial institutions, which have become widespread phenomena in the banking sector today. Furthermore, the model assigns equal importance to all five forces that comprise it (Beattie, 2022), which is a significant error. In the banking industry, for example, we cannot give the same importance to the bargaining power of customers, who form the basis of banks' existence, and the bargaining power of suppliers, who represent a supporting activity for the banking industry alone.

4. METHODOLOGY

This study primarily aims to analyse the competitiveness of the Algerian banking sector by applying Porter's Five Forces competitive model to it. In addition, the study seeks to analyse the attractiveness of the banking industry in Algeria. Furthermore, the study aims to raise awareness among the monetary authorities, Algerian and foreign bank managements, and anyone involved about the importance of enhancing the competitiveness of the banking sector and the significance of utilising Porter's Five Forces model in the banking industry. To achieve these goals, a descriptive approach was adopted by analysing statistics from the Algerian Central Bank and the results of previous studies. An inductive method was also used to apply Porter's Five Forces model to the Algerian banking sector.

5. RESULTS AND DUSCUSSION

5.1 Intensity of Competition in the Algerian Banking Market

Taking a quick look at the Algerian banking sector, we find that it is currently being competed with by 19 banks: 6 government-owned banks and 13 foreign banks, as illustrated in the following table:

Table 1. Active Commercial Banks in the Algerian Banking Sector

Government Banks	Foreign Banks
The National Bank of Algeria (BNA), the National Fund for Savings and Reserves Bank (CNEP), the External Bank of Algeria (BEA), the People's Credit Bank of Algeria (CPA), the Bank of Agriculture and Rural Development (BADR), and the Local Development Bank (BDL).	Al Baraka Bank Algeria (AAB), Arab Banking Corporation (ABC), Société Générale (SG), BNP Paribas, Natixis Bank (NB), France Bank (FB), Citibank (CB), Trust Bank (TB), Gulf Bank Algeria (AGB), Arab Bank (AB), Housing Bank for Trade and Finance (HBTC), Salam Bank (SB), HSBC Bank (HSBC).

Source: adapted from the Central Bank of Algeria website.

At first glance, there appears to be significant diversity in the Algerian banking market, indicating a high level of competition. However, upon closer examination, it becomes evident that the prevailing pattern in the Algerian banking sector is one of limited monopolisation, as the six government banks control a total of 85% of the total deposits and 86% of the total loans provided to the economy (Bank of Algeria, 2021).

Regarding price competition, it is evident that it is very weak. This is due to extensive intervention by the Central Bank of Algeria in determining various interest rates on deposits, loans, and even fees for other banking services. This significantly restricts the effectiveness of price competition and makes Algerian commercial banks closely resemble each other.

5.2 Threats of New Entrants to the Algerian Banking Market

Considering the mechanism of entry for new competitors into the banking sector in Algeria, it becomes evident that it is a very challenging task. Several requirements, such as capital adequacy and other administrative procedures, serve as strong barriers against the entry of new competitors. The Bank of Algeria imposes a minimum capital requirement of 20 billion Algerian dinars for the approval of new banks, which is a significant amount and forms a robust entry barrier (Bank of Algeria, 2018).

As a result, the threats of new entrants to the Algerian banking market are very weak, as evidenced by the fact that no new banks have entered the Algerian banking market for the past 15 years, specifically since 2008. The table below illustrates the number of active commercial banks in Algeria over the last six years:

Table 2. Number of Active Commercial Banks in the Algerian Banking Sector during the Period (2017-2022)

Commercial Banks	2017	2018	2019	2020	2021	2022
Government Banks	6	6	6	6	6	6
Foreign Banks	14	14	14	14	13	13
Total	20	20	20	20	19	19

Source: adapted from Bank of Algeria's official website.

The table illustrates the strength of entry barriers to the Algerian banking market, as no new bank has entered the market in the last six years. Moreover, one foreign bank, Crédit Agricole

Corporate and Investment Bank (CA-CIB) from France, had its authorisation withdrawn in 2021 due to non-compliance with certain banking regulations in Algeria. On the contrary, a new government bank, the National Housing Bank, was recently established in 2023. It is a government financial institution that will focus on financing the real estate sector and various housing programs supported by the Algerian government to provide adequate housing for low- and middle-income individuals (Officiel Journal of Algeria, 2022).

5.3 Threats of alternative banking products and services in the Algerian banking market
When discussing threats to alternative banking products and services in the Algerian banking market, it becomes evident that there are various emerging alternatives. However, these alternatives do not stem from the diversity of financial activities, such as the financial market, corporate banks, or insurance institutions. On the contrary, the financial market in Algeria is weak, with very limited transactions. There is hardly any significant presence of investment banks or corporate banks. Meanwhile, the insurance activity in Algeria faces several problems and obstacles.

The existing alternatives are rather traditional, such as using postal services or keeping money at home. In this regard, most financial transactions for Algerians take place through post offices. For instance, at the beginning of 2022, the number of post office branches was estimated at 4,055, compared to 1,603 bank branches. Additionally, the post offices had 1,409 ATMs, while banks had 1,493 ATMs (Bank of Algeria, 2022). Another major issue is the phenomenon of Algerians keeping money at home, which has been a significant concern for the Algerian government for years.

Recently, one of the notable threats to alternative banking products and services that has seen significant growth in Algeria is Islamic banking products. Since 2020, following the issuance of Regulation 20-02 related to the official recognition of Islamic banking in Algeria and its various products (such as Mudarabah, Murabaha, Musharakah, Ijara, Salam, Istisnaa, etc.), there have been new restrictions on the entry of international banks (European and American) that focus on conventional finance (interest-based). This will cause them to miss out on significant opportunities to acquire a broader customer base. On the other hand, Gulf and Islamic banks, in general, will benefit from this new trend (Bank of Algeria, 2020).

5.4 Negotiating Power of Clients in the Algerian Banking Market
In the banking sector, clients, whether individuals, institutions, or government entities, have significant negotiating power. Dissatisfaction with a bank may lead to negative behaviours from clients, such as withdrawing their deposits and switching to a competing bank, potentially putting the bank in a difficult position and gradually eroding its capital (Lovelock & Wright, 2002). This gives clients high negotiating power.

However, the negotiating power of clients in Algerian commercial banks is not as strong, due to several factors:

- Ineffectiveness of price competition: The Bank of Algeria's control over setting prices for banking products and services (as mentioned earlier) limits the differentiation between Algerian commercial banks. This reduces clients' opportunities for choice and weakens their negotiating power.
- Weak financial investment culture: Many Algerians still keep their money at home and do not use the banking system. Statistics indicate a large informal market in Algeria, with around 10 trillion Algerian dinars circulating outside the formal banking sector, not benefiting the overall economy (Algeria Press Service, 2022).

- Specialised nature of some banks: Despite Algerian commercial banks now offering various services, some banks still maintain a specialised nature as they did before the 1990 Banking and Loan Act (Bank of Algeria, 1990). For example, the Agricultural and Rural Development Bank (BADR) specialises in financing the agricultural sector, the National Savings and Reserve Fund Bank (CNEP) focuses on real estate financing, and the Algerian Foreign Bank (BEA) specialises in foreign trade financing. This specialisation limits clients' choices and weakens their negotiating power.

5.5 The Negotiating Power of Suppliers in the Algerian Banking Market

Suppliers in the commercial banking sector encompass all the supportive parties involved in the banking activities, such as equipment and office supplies providers, IT and software companies, employment agencies, legal and accounting service providers, correspondent banking networks, interbank loans, and others (De Coussergues, Bourdeaux, & Gabteni, 2020).

In the Algerian banking sector, suppliers do not have a significant impact. For instance, if we take employment agencies, we find that Algerian banks mostly do not rely on them, but rather prefer direct hiring based on competitions or interviews. This is due to an excess of university graduates specialised in various banking, financial, and accounting fields, and sometimes recruiting individuals outside their area of specialisation. However, the challenge faced by Algerian banks lies in finding highly qualified and well-trained personnel suitable for the positions, indicating a weak negotiating power for employees, especially given the weak role of their labour unions as well.

Moreover, Algerian commercial banks do not rely heavily on strategic alliances, as there are very few alliances between banks and insurance institutions to provide bancassurance services. As for alliances between banks themselves, they are almost non-existent, and there are no common markets, mergers, or acquisitions. Additionally, the Algerian banking system is inward-looking, with a lack of foreign bank branches, limited correspondent banking networks, difficulties in transferring money abroad through Algerian banks, and challenges in receiving funds from abroad. All these factors contribute to the weak negotiating power of suppliers in the Algerian banking market.

6. CONCLUSIONS

This study concludes that Porter's Five Forces model is a crucial tool for banks as it greatly aids in determining the intensity of competition and attractiveness of banking markets. Strategic analysts rely on it to assess the profitability of banking products and services by identifying strengths, valuing them, identifying weaknesses, and working on improvements while avoiding pitfalls.

Porter's Five Forces model is particularly valuable when initiating banking activities or entering the banking industry. Banks use it to identify influential factors within the banking industry and, consequently, factors affecting overall bank success.

In the current circumstances, it is evident that the Algerian banking sector is not an attractive market for European and American banks, as all five competitive forces (rivalry among existing competitors, threats of new entrants, threats of substitute products, bargaining power of customers, and bargaining power of suppliers) show significant weakness and shortcomings in the Algerian banking sector. Nevertheless, a decision to enter the Algerian banking market can be profitable if the focus is placed on addressing weaknesses in the market, such as enhancing electronic banking services, financing self-employed professionals and startups, facilitating foreign trade, and capitalising on the recent growth of Islamic banking services in Algeria, which can attract more Gulf banks to the Algerian banking market.

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