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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

A THESIS ON
ASSESSING PRODUCT DIFFERENTIATION AND ITS
IMPLICATION ON BANK PERFORMANCE; THE CASE OF
SELECTED COMMERCIAL BANKS IN ETHIOPIA

BY
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JANUARY, 2024
ADDIS ABABA, ETHIOPIA

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**ATHESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND
FINANCE IN THE PARTIAL FULFILLMENT OF THE REQUIREMENT FOR
THE DEGREE OF MASTERS OF SCIENCE IN ACCOUNTING AND
FINANCE.**

JANUARY, 2024

ADDIS ABABA, ETHIOPIA

DECLARATION

I, the under signed declare that the research project entitled "Assessing product differentiation and its implication on bank performance; the case of selected commercial banks in Ethiopia" has been carried out by me under supervision of my advisor. The Information derived from the literature has been duly acknowledged in texts and a list of references is provided. No part of this Thesis was previously presented for another degree or any other institution.

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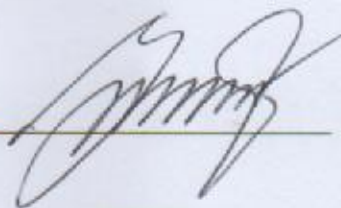
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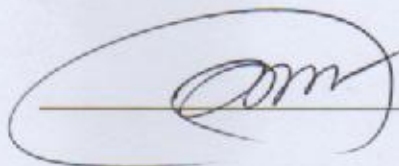
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LIST OF ACCRONYMNS

AB	Awash Bank
ADB	African Development Bank
BB	Bunna Bank
ATMs	Automated–teller machines
CAMEL	Capital adequacy, Asset quality, Management, Earnings quality and Liquidity
CBE	Commercial Bank of Ethiopia
DGB	Debab Global Bank
FIs	Financial Institutions
IASB	International Accounting Standards Board
SPSS	Statistical Package for Social Scientists

ABSTRACT

This study aims to assess the practices of product differentiation and its implication on financial performance of commercial banks in Ethiopia. The researcher used explanatory research design complemented with a qualitative research approach. Using simple random sampling technique 74 samples were selected among 93 employees from commercial banks of Ethiopia located in Addis Ababa. The data were analyzed using basic descriptive statistics including frequencies, percentages, mean, and cross-tabs. The findings of the study indicate that the banks have opened several branches in various parts of the country which have led to increased customers and this in turn has improved the proximity and customer convenience. It was also evident that the banks have diversified their operations by offering differentiated products and services associated with loans and deposits. It was also made evident, as a result of differentiation, the banks have attained, high profitability level, and favorable liquidity level to help them meet their short term obligations and also it creates to manage assets and liabilities too. Furthermore, the study found that there is a positive relationship between product differentiation, in terms of product innovation, product design quality and uniqueness with the financial performance of the selected banks. This research concludes that in order to improve the banks business performance, banks should apply new product/ service that their competitors desperately needs. Beside the aforementioned variable that, management quality plays a vital role in maintaining and boosts business performance of Ethiopian banks. Finally, this comprehensive evidence will help policy makers to give attention to product differential and its implication on the banks financial performance to gain competitive advantage over the rivals and has paramount importance for the clients to address and exceed their expectations too.

Keywords: *Product differentiation; financial performance; service quality, commercial banks Ethiopia*

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Product differentiation is defined simply as distinguishing the goods or services of one seller from those of another on any basis that is important to the buyer and leads to preference; (Chamberlin, 1965). Porter adhered to the traditional operational definition of product differentiation as the degree of cross-price inelasticity with respect to competing brands. Product differentiation is achieved by offering a valued variation of the physical product. The ability to differentiate a product varies greatly along a continuum depending on the specific product.

According to Gary & Kotler (2005) product differentiation can occur by manipulating many characteristics, including features, performance, style, design, consistency, durability, reliability, pore par ability. Differentiation allows accompany to target specific populations. Differentiation looks to make a product more attractive by contrasting its unique qualities with other competing products. Product differentiation is one of the most widely applied competitive strategies in pursuit of competitive advantage and firm performance. Accordingly, the link between product differentiation and firm performance has been extensively explored theoretically and empirically. Theoretically, product differentiation strategy is expected to enhance firm performance because it allows firms to compete with rivals in the market using something other than price (Amar, 2016). This means that even if the rivals offer cheaper prices for their products, if they can't match the perceived quality attributes of the other company, they will not succeed in attracting customers

Maximizing financial performance through product differentiation is one of the strategic goals and objectives of most firms including commercial banks. This is largely because optimization of financial performance implies the fulfillment of interests of company stakeholders including shareholders, employees, suppliers, communities and governments among others (Summer & Bayraktar, 2012). When the physical product cannot easily be differentiated, the key to competitive success may lie in adding valued services and improving their quality. The main service differentiations are ordering ease, delivery, installation, customer training, customer consultancy and maintenance and repair (Kotler, 2004).

Differentiation strategies seek to produce a competitive edge by incorporating attribute and

features in a company products or services offering that rivals don't have. Anything a firm can do to create buyer value represents a potential basis for differentiation. Successful differentiation is usually keyed to lowering the buyer's cost of using the item, raising the performance the buyer gets, or boosting a buyer's psychological satisfaction. To be sustainable, differentiation usually has to be linked to unique internal expertise, core competencies and resources that give company capabilities, its rival can't easily match (Strickland, 2001).

In differentiation strategy, the business concentrates achieving superior performance in an important customer benefit area valued by a large part of the market. Thus the firm seeking quality leadership, for example must make product with the best components, put them together expertly, inspect them carefully, effectively communicate their quality (Kotler, 2009). Differentiation strategies are based on offering to banking customers, something unique or different that makes the firm's product or service distinct from that of rivals. The important assumption behind differentiation strategies is that customers are ready to pay premium price for a product that is distinct in some important way, like better service and superior quality and special appeal (Kotler, 2009).

Banking industry in Ethiopia seek to develop a reputation for superior performance in on-time delivery, better and faster answering of inquiries and quicker resolution of complaints. However, not all banks have invested to provide product differentiation to customer satisfaction and ensuring profitability. Therefore, the study aims to examine the effect of product differentiation on business performance of Ethiopia's commercial banking industry.

1.2 Statement of the Problem

Due to the rapidly changing economic and business environments, organizations strive to compete to attract customers, generate revenue, enlarge market share with products and services that meet customer's needs. Competition has brought about technological changes whereby customers are demanding for variety of quality products and services with lower prices and attractive product design. This increased rate of competition has brought about product differentiation. This has led to much emphasis being placed on organizational competencies and creation of competitive advantage which is believed would give them an edge over other competitors (Kireruet *etal*, 2016) and (Ndugu, 2011).

The performance of government and private banks in the Ethiopian economy has shown growth in terms of expansion, profitability, market outreach, innovative banking products and others year after year since their initial entry in 1994. The emergence of new banks in the banking industry makes competition intense. However, in the Ethiopian banking industry, there appears to be limited effort to engage in product differentiation activities as a tool for securing long-term growth and profitability. The banks response to the competitive and challenging environment by making huge investment in their branch network expansion, adopting new technology and rolling out new products design ,uniqueness and providing quality product with the intention of beating the standards of their competitors. The need to continuously improve the product/ services and offer low cost innovative services is a great challenge to the banks given the dynamic nature of the business environmental factors and competition in the industry (Asale, Y. Y. T. G., 2019).

Various studies conducted in relation to banks product differentiation. For instance, Kireru *etal* (2016) study and concluded that most commercials banks in Kenya have adopted product differentiation in order to achieve competitive advantage. Ndugu, (2011) revealed that banks have adopted user convenience differentiation by expanding their branches and improving service qualities in various parts of the country. Moreover, Muia (2017) stated that commercials banks have product development strategy to maintain and ensure overall performance. In Ethiopia, most commercial banks rely of opening various branches, conducting huge advertising campaign as fundamental tool to profitability and customers' satisfaction.

However, these strategies are not enough to ensure sustainable growth and profitability. Hence, banks better to extend their strategy. It is therefore, prudent that Commercial Banks in Ethiopia develop product differentiation strategies which aim at ensuring that they remain relevant and survive the competitive business environment and finally maintain and improve their profitability. Therefore, the study aims to assess product differentiation and its implication on banks performance apparently evidenced Ethiopia's commercial banks. Empirical work measuring product differentiation and network effects in banking is still limited, despite the fact that theoretical models are already highly developed and rich in testable hypotheses. This study is thus conducted focusing on the general policy, capacity, product differential, bank performance, the quality of service and competition among the commercial banks and on the other hand the product quality of the banks and its implication on banks financial performance.

1.3 Research Questions

The broad statement of the problem is narrowed down into the following research questions this research attempted to answer:

- What is the extent and trend of product differentiation in Ethiopia's commercial banks all in the study area?
- What is the implication of product differentiation in terms of product innovation, product design, product quality and uniqueness, on financial performance of commercial banks in Ethiopia?

1.4 Objective of the Study

14.1 General Objective

Generally, this study aims to examine the extent of product differentiation and its implication on financial performance of commercial banks in Ethiopia.

14.2 Specific Objectives

Specifically, this study addresses the following objectives:

- To examine the level of product differentiation (product or financial Innovation, product design, product quality and uniqueness) on Commercial banks in Ethiopia.
- To examine the implication of product differentiation on financial performance in commercial banks of Ethiopia.

1.5 Scope of the Study

This study aims to examine the effect of product differentiation on business performance in some selected Commercial bank in Ethiopia. To achieve this aim, the scope of the study was limited to product differentiation and business performance of the banks. The study delimited its location in Addis Ababa and selected one government (CBE) and three private commercial banks (AB, DGB and BB) as a sample of the study. It's believed that the sample size is big enough to give statistically valid results and accurate estimates of population. Moreover secondary data was collected from aforementioned banks headquarters to see the extent and trend of product differentials and their financial performance.

1.6 Significance of the study

The study's findings will help the bank by allowing them to be aware of the areas that need to be improved. Gaining a competitive advantage in today's increasingly competitive or crowded business environment is incredibly tough. Product differentiation is the main weapon for overcoming this type of competition. Because it would come up with appropriate suggestions on how the bank differentiate them to be able to satisfy the requirement of the current customer needs. The results of the study also help other researchers as a source of reference for those who want to make further study on the area afterwards. Finally, it gives all stake holders in the area the opportunity to gain deep knowledge about the relationship between product differentiation and business performance.

1.7 Limitations of the study

During the study, the researcher faced some uncontrollable (external) variables that affected the smooth implementation of the research although the researcher tried his best to design the research as properly as possible. For instance; lack of resource, relevant and up to date published literatures mainly in the context of Ethiopia and absence of full information displayed on websites were the major constraints during the study. Moreover, carelessness of some respondents to respond to the questionnaire in honestly manner and timely submission was also the limitation of this study.

Importantly, this study has limitations or shortcomings including lack of proportional sample size distribution, lack of available or reliable data, variable measurement strategy to collect the required data, and the data analysis more relied to basic descriptive statistics. Even though, the researcher has planned these issues and managed to address the challenges through applying appropriate statistical methods.

1.8 Definition of Terms

Product differentiation: Product differentiation is a process used by businesses to distinguish a product or service from other similar ones available in the market. This tactic aims to help businesses develop a competitive advantage and define compelling, unique selling propositions that set their product apart from competitors. In addition, organizations with multiple products in their portfolio may use differentiation to separate their various products from one another and prevent cannibalization (Baldwin, R. E., & Martin, P., 2004).

Personnel differentiation: Personnel differentiation refers to an organization's ability to respond quickly to the needs of its members by utilizing employees' skills and knowledge. Staff with the knowledge and skills required to provide superior service will always have an advantage over their competitors. This is due to the fact that well-trained employees will provide excellent customer service, resulting in increased productivity (Mbugua & Kinyua, 2019).

Channel differentiation: A distribution differentiation strategy can help a business stand out from the crowd. Every company cannot develop a product and then distribute it to dealers, distributors, retailers, and so on through its distribution channels. Supply chain and distribution must be considered by a company that focuses on distribution differentiation. Businesses strive to standardize their distribution networks to gain a competitive advantage (Stern, 1987).

Process differentiation: Understanding and enabling how the business interacts with various internal and external constituents and customers, as well as where and how those intersections create or interrupt value is a key to process differentiation. Workflow, technology upgrades, performance (continuous) improvements, and/or changes in the business/revenue model drive the majority of change/create process initiatives (Pearce, 2007).

1.9 Organization of the study

This study is structured as follows; chapter one provides the study background of the study, statement of the problem, research questions, objective of the study, scope of the study significance of the study, Limitations of the study, definition of terms and organization of the study. Chapter two presents review of related literature. Chapter three dealt with the Methodology employed in order to achieve the research objectives. Chapter four presents the actual data analysis, interpretation and discussion of the study findings. Finally, chapter five presents the main findings, conclusions, recommendations of the study.

CHAPTER TWO: LITERATURE REVIEW

2.1 Understanding the Concept of Product differentiation

According to Ochwangi Mengo & Simon Nyakwara (2020) product differentiation as a firm using different marketing mix activities such as product features and advertising to help the consumer perceive the product as being different and better than competing products. Product differentiation strategy can be a tool of competitive advantage which is adopted by organizations in order to provide products that satisfies individual customer's needs. The concept of differentiation is described as a process of adding distinct characteristics that are not only meaningful but also valued, to the offerings of a company in order to distinguish the goods or services from the ones of competitors (Kotler, 2003). Differentiation causes an increase market share, provided the product is appealing to customers. This means that a company must identify and initiate customer preferences if it wants to increase market share through differentiation. Finally, the company that has differentiated itself in order to gain customer loyalty should be better positioned than its competitors (Valipour, 2012).

Product differentiation is a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services (Rahman, 2011). A company's physical product offering may be highly differentiated on features not offered by competitors in the same industry, and some companies also differentiate their products based on performance, such as power, professional credibility, and so on. Companies, on the other hand, can differentiate their physical products based on features like innovation, consistency, durability, reliability, and reparability. Aside from distinguishing the physical product, the image of the product can also be distinguished. The established image should communicate a clear and distinct message about the product's main benefit and positioning (Adinan Bahahudeen Shafiwu & Abukari Mohammed, 2013).

Product differentiation is one of the most commonly used competitive strategies for gaining a competitive advantage and improving company performance. As a result, there has been a lot of theoretical and empirical attention paid to the relationship between product differentiation and company success. In theory, a product differentiation strategy should improve business

performance because it allows businesses to compete with market competitors using a strategy other than pricing (Amar, 2016).

So this is even though other companies delivering their items at a low cost however the consumer doesn't compare perceived quality attributes and is attracted by the competitor's items. In addition to that, because differentiation enables to feel of uniqueness in the customer's mind, companies can leverage this to demand premium pricing, increase return on investment (Demba & Muli, 2018).

2.2 Types of product differentiation

Product differentiation takes on various forms which include vertical differentiation, horizontal differentiation and mixed differentiation.

Vertical differentiation

Vertical differentiation refers to differences in the actual quality of two brands. Vertical differentiation occurs in a market where the several goods that are present can be ordered according to their objective quality from the highest to the lowest (Hotelling, 1929). It's possible to say in this case that one good is "better" than another. Vertical differentiation can be obtained: along one decisive feature; along a few features, each of which has a wide possible range of (continuous or discrete) values; across a large number of features. When products are vertically differentiated for example by quality truthful advertising may solve problem by signaling quality. If all customers are informed about product quality, a high quality good should command a higher price than a low-quality good. If advertising is truthful and credible, higher price means higher quality (ValentinoPiana, 2003).

Horizontal differentiation

Horizontal differentiation refers to differences between brands based on different product characteristics but not on different overall quality. When products are different according to features that can't be ordered in an objective way, a horizontal differentiation emerges in the market. Horizontal differentiation can be linked to differentiation in colors (different color version for the same good), in styles (e.g. modern / antique), in tastes. It is quite common that, in horizontal differentiation, the supplier of many versions decide unique price for all of them. For horizontally differentiated products, informative advertising enables a consumer to find a product

that best matches his or her preference. A consumer's preferences can be graphed as locations in a spatial market or city (Hotelling (1929). The distance between the locations of a firm and a consumer represents the difference between a product and the consumer's preference. Therefore, advertisement about a product's location helps the consumer find out which product is closer to one's location (ValentinoPiana, 2003).

Mixed differentiation

Certain complex markets are characterized both by horizontal and vertical differentiation. For instance, apparel, garments and shoes have an amazingly rich combination of shapes, colors, materials, complementarities, seasonal and territorial specificities, and appropriateness to social events, relative distance to ideals promoted by media, stylists and the show business. The quality of the materials can often be seen as a vertical differentiation but some other elements are clearly horizontal, like shapes. In such an environment, consumers can develop fairly different styles of comparison, with some spending large amount of time getting exposed and evaluating versions, talking with others and sharing judgments, while others drastically reducing the difficulty of the comparison through repurchase of very classical items (Valentino Piana, 2003).

Product differentiation by banks

Vertical differentiation is considered to cope with the heterogeneity of bank types. It is introduced by allowing consumers 'preferences to depend on the type of the banking institution they are dealing with by considering that the relevant interest rate for customers 'decisions is the sum of the explicit interest rate and the implicit interest rate (Anis Ali, 2018). Vertical product differentiation results into less competition, derived from a bank's ability to differentiate its services from those of its rivals through quality, is positive because it helps to provide a more stable banking system. Moreover, the banking market power generated by investing in quality does not prevent banks from operating efficiently from production point of view. Horizontal differentiation in relation to banks is done by considering that banks compete spatially through the opening of branches in several geographical markets (Ziska Fields & Christo Bisschoff (2014). Product differentiation in banks involves the various financial innovations undertaken by banks. The financial innovations include the introduction of new products offered by a bank and also increasing on the bank's branch network.

2.3 Determinants of product/financial innovations

There are various factors in the banking industry that push banks towards the introduction of new range of products and also that lead to the expansion of the bank's network.

Competition

The standard theory argues that there is a positive relationship between competition and innovation. Allen and Santomero (2001) suggest that the launch of financial innovation process undertaken by banks prove to be a response to the intensifying competition within the financial markets.

Size

Size is an important factor in adopting financial innovation among financial institutions. Large firms are usually in a better position to pay fixed costs of developing new technologies. Large firms are assumed to direct the innovations and spread the process, thanks to economies of scale and scope in research and design activities (Buzzachi *et al*,1995)

Type of organization

This refers to whether an organization is privately owned or publicly owned. Private organizations are considered to be more innovative than public organizations. In the banking context, public banks are sometimes led to financing high risk or to emphasize more traditional banking operations such as collecting deposits or granting credit. [International Research Journal of Finance and Economics - Issue 51 (2010)]. Mohieldin and Nasr (2007) and Megyery and Sader (1996) cite promotion of innovation through better access to technologies as one of the objectives planned by government in the privatization process.

Diversification

Many authors have shown that there is a negative relationship between diversification and financial innovation. In a system of full-service banks, financial innovation is usually lower than the innovation in a financial system where commercial banks are separated (Boot and Thakor, 1997). Diversification leads to creation of agency costs related to investments in innovations which discourages managers from getting involved in innovation (Denis et al. 1997; Francis and Smith, 1995).

Product Design

In its essence, design thinking in banking is a customer –centered process for solving problems. It includes understanding people’s needs, defining their challenges, brain storming solutions, and then prototyping and testing the solution. A product design indicates its usefulness as well as makes it attractive. Product design can be one of the most powerful competitive weapons in the company’s marketing strategy. According to Kotler (2006), mentioned design is large concept than style. Thus style simply describes the appearance and can be eye catching or inspiring, unlike style designs more than skin deep. Good design can attract attention, improve product performance, cut production cost and give product strong competitive advantage.

According to Kumer (2002) product design is concerned with the form and function of product. Form design involves the determination of what product would look like i.e. product’s shape and appearance what it will be made of and how it will be made.

Product Quality

Product Quality is the level at which the products primary characteristics operate. Quality link to profitability does not mean that the firm should design the highest performance level possible. The manufacturer must design a performance levels. A company must also manage performance quality through time. Continuously improving the product often produces the highest return and market share. The second strategy is to maintain product quality at a given level. Many companies leave quality unaltered after its initial formulation unless glaring faults or opportunities occur. The third strategy is to reduce product quality through time. Some companies cut quality to offset rising costs; others reduce quality deliberately in order to increase current profits, although this course of action often hurts long-run profitability (Kottler, 2003).

Product Uniqueness

Banking products and services refer to the various financial products and services. Each one has its own unique features and benefits. Banks performing more unique activities exhibit higher profitability and lower risk, controlling for size, diversification, and other key characteristics. Banking comprises many different activities that can be categorized in various ways. The usual distinctions are lending versus deposit taking, domestic versus cross-border banking, on-balance sheet versus off-balance sheet banking (often coinciding with commercial versus investment

banking). The focus is on the dimension that exhibits significant variation across banks and over time, but that has not been investigated yet: the uniqueness of banking activities. Some banking activities are common; they are performed by all banks and relate to basic financial services (e.g., demand deposits). Other activities are unique and performed by few banks (e.g., credit derivatives). Recently, the uniqueness in banking has also gained attention by bank regulators and supervisors as the “lack of substitutability” has become part of the definition and regulation of systemically important banks (Basel Committee for Banking Supervision, 2013; International Monetary Fund, Bank for International Settlements and Financial Stability Board 2009). Low substitutability (of banks and/or banking activities) implies high uniqueness, which might contribute to financial instability that may spill over to the real economy. Despite its importance, it is surprising that the finance literature has not examined the effects of uniqueness in banking yet, neither in general nor for the global financial crisis.

Benefits of product differentiation

For the consumer, product differentiation can increase the satisfaction from her/his consumption, as the product better fit her/his needs, conditions of use and special purposes. Product differentiation can lead to the exploration of the product space by un-loyal customers, who use the repurchase occasions to try new versions. Product differentiation gives the product or service an edge over rival products. It highlights unique aspects of the products and also generates value for the product in the eyes of the buyer, which should be any manufacturer's ultimate goal. When the buyer perceives, a difference is when he will remember the product and buy it, thereby resulting in higher sales for the company (Kotler P., 2003).

In neoclassical theory, product differentiation provides consumers with a variety of different products within a particular industry, rather than homogeneous product that characterizes purely competitive markets. Financial innovations are used by banks as form Idabel strategic variables to out strip the competition and have become an essential means for the bank to improve its performance and to maintain its effectiveness on the market (Batiz-Lazo and Woldesenbet, 2006).

The Costs of Differentiation

Differentiation adds cost. The direct costs of differentiation include higher-quality inputs, better-trained employees, higher advertising, and better after-sales service. The indirect costs of differentiation arise through the interaction of differentiation variables with cost variables. If differentiation narrows a firm's segment scope, it also limits the potential for exploiting scale economies. If differentiation requires continual product upgrading, it hampers the exploitation of experience curve economies (Christo Bisschoff and Dries Els, 2023).

2.6 Bank Performance

Performance can be considered as the degree of accomplishment of the objectives and goals which an organization's resources have been provided (Dittenhoffer, 2001). It is best to measure performance because it serves as a base of motivation for an individual or an organization. Performance measurement is an aspect of management control which indicates the extent to which corporate strategies and objectives may have been met (Nyabirambi, 2004). Performance is normally measured to check whether there is need to reinforce action or to diverse alternative course of action. Traditionally financial performance has been based on the income statement and balance sheet.

2.7 Performance measures

Pattern and Rosengard (1991) identified six determinants to evaluate the performance of any financial institution. These include; efficiency, effectiveness, adaptability, personnel, autonomy and accountability. Boray and Sierra (1998) were of the view that the key performance indicators of banks include capital adequacy, credit quality, nominal and real return and profitability, efficiency and spreads and operating margins and net operating income. Financial analysts view institutional strength in terms of level of capitalization, quality of assets, earnings capability as well as ability to meet short term liabilities with minimal constraints or liquidity. In addition to the quantitative indicators are the equally important qualitative measures inform of management and internal control practices.

Bar and Siens (1993) use the CAMEL model to measure bank performance. CAMEL measures performance in regard to capital adequacy, asset quality, management quality, earnings and liquidity. It should be appreciated that when using the CAMEL model to assess bank 's

performance the examiners can find ample information from the balance sheet and financial statement to assess capital adequacy, asset quality, earnings and liquidity. It is however difficult to determine management quality since no clear-cut measures of management quality emerge from the financial statement.

Profitability

It is the ability of the bank to earn a profit on the level of income made. Traditionally the financial performance of banks and other financial institutions has been measured using a combination of conventional accounting measures of risk and return (Duncanetal, 2004). Dermirguc and Detrigiache (1998) argued that bank performance can be measured using profitability which is the percentage of net profit before tax to the total income of the bank. Sadakkadula and Subbaiah (2002) contend that profitability indices are widely accepted and used by bankers, financial institutions, management, owners and other creditors as they are interested in knowing whether or not the firm earns a profit on its activities.

Capital adequacy

Capital adequacy ultimately determines how well FIs can manage with shocks to their balance sheets. Thus, it tracks capital adequacy ratios that take into account the most important financial risks—foreign exchange, credit, and interstate risks—by assigning risk weightings to the institution's assets. Leverage ratio can be used to measure the capital adequacy of a bank. This is the ratio of bank's book value of core capital to the book value of its assets. The higher ratio shows the higher level of capital adequacy. Capital adequacy is a percentage ratio of capital to risk weighted assets, used to protect depositors and to measure the financial strength and stability of a bank. This ratio indicates the ability for a bank to absorb any losses by accounting for risky asset, making the Capital Adequacy Ratio (CAR) advantageous (Uniform Bank Performance Report Fall 2009). The 1993 Basel Accord enforced the capital ratio to risk adjusted assets of commercial banks (According to this accord, core capital must equal to or exceed 4 percent of the risk weighted assets of the commercial banks. Similarly, the amount of the supplementary capital should not exceed the amount of the core capital and the total capital must equal or exceed 8 percent of risk weighted assets (Saunders and Cornett, 2004).

Asset quality

Asset Quality mainly looks at how good are the bank's loans and advances - this is because credit risk is one of the key issues that affect the success of a bank. Credit risk is influenced by many factors including: Loan concentration by industry, borrower, portfolio quality, etc. (ii) Non-performing advances, (iii) Bad debts, (iv) Loans to related parties, (v) Loan loss provision ratio, among others [www.bis.org, bou.or.ug accessed on 15 Jan 2009). Credit risk is one of the factors that affect the health of an individual financial institution. The extent of the credit risk depends on the quality of assets held by an individual financial institution. The quality of assets held by a financial institution depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers—especially the corporate sector. We can use a number of measures to indicate the quality of assets held by FIs. ADB suggests these measures—loan concentration by industry, region, borrower and portfolio quality; related party policies and exposure on outstanding loan, approval process of loan, check and balance of loans; loan loss provision ratio; portfolio in arrear; loan loss ratio; and reserve ratio—of checking the quality of assets of a financial institution (ADB 2002). Commercial banks have to make 1 percent provision for pass loan/performing loan, 25 percent for substandard loan, 50 percent for doubtful loan and 100 percent for bad loan (NRB, 2005).

Management Quality

Sound management is a key activity to bank performance but is difficult to measure. It is primarily a qualitative factor applicable to individual institutions. Several indicators, however, can jointly serve as an indicator of management soundness. Expenses ratio, earning per employee, cost per loan, average loan size and cost per unit of money lent can be used as a proxy of the management quality. ADB recommends cost per unit of money lent as a proxy of management quality. Banks evaluate management quality through Data Envelopment Analysis (DEA) developed by Charnes *et al* (1978) to measure the comparative performance of homogeneous organizations and contend that banks adopted DEA in the 1990's as the principle method of assessing bank efficiency. Since then DEA has been extensively used by Barand Siems (1993) and Siemsetal (1993) in measuring management quality in commercial banks. Bar and Siems (1996) contend that assessing management quality requires professional judgment of banks compliance to policies and procedures, aptitude of risk taking, development of strategic plans and the degree of involvement by the bank officers and directors in making decisions.

Management quality is evaluated by assessing the board of directors across all functions of the bank. Management should identify and control risks through monitoring procedures and enforcing policies in the bank. The performance of the bank directly reflects the quality of the management.

Earning Performance

A variety of earnings-quality definitions exist. Teets (2002) states that some consider quality of earnings to encompass the underlying economic performance of a firm, as well as the accounting standards that report on that underlying phenomenon; others consider quality of earnings to refer only to how well accounting earnings convey information about the underlying phenomenon. Pratt (2003) defines earnings quality as the extent to which net income reported on the income statement differs from true earnings. Penman (2003) indicates that quality of earnings is based on the quality of forward earnings as well as current reported earnings. Schipper and Vincent (2003) define earnings quality as the extent to which reported earnings faithfully represent Hicksian income, which includes the change in net economic assets other than from transactions with owners. Earning capacity or profitability keeps up the sound health of an FI. Chronically unprofitable FI risks insolvency on one hand and on the others, unusually high profitability can reflect excessive risk taking of an FI. There are different indicators of profitability. Return on assets, return on equity, interest-spread ratio, earning-spread ratio, gross margin, operating profit margin and net profit margin are commonly used profitability indicators.

Liquidity

It is the ability of an organization to pay its short term debts as they fall due. Liquidity ratio is the result of dividing liquid assets by current liabilities. On the other hand, liquidity risk is the risk of the financial institution being unable to meet financial commitments or payments at the right time, place and in the required currency (Kaufman, 1995). Kasekende and Atingi-Ego (2003) argue that Ugandan commercial banks keep excess reserves on hand that is sufficient to cover adverse interbank clearing. This means that commercial banks have to divert a greater proportion of their loan able funds to accumulated reserves with Bank of Uganda and cash at hand which in effect earn zero interest rate. Liquidity is essential for a bank because it determines whether the bank will be able to provide funds for growth. Liquidity analysis determines how easily the bank

can acquire immediate funds through either assets or liabilities. This would involve selling assets as a first option or increasing the bank's liabilities. Although both of these scenarios come with a cost attached. By selling assets the asset quality will decrease, and by adding liabilities the bank may add costs depending on the market situation (Uniform Bank Performance Report Fall, 2009).

Sensitivity to Market Risk

Commercial banks are increasingly involved in diversified operations such as lending and borrowing, transaction in foreign exchange, selling off assets pledged for securities and soon. All these are subject to market risk like interest rate risk, foreign exchange rate risk, and financial asset and commodity price risk (Saunders and Cornett 2004). The health of an FI more sensitive to market risk is more hazardous than that of less sensitive. Foreign exchange risk, interest rate risk, equity price risk, and commodity price risk are the indicators of sensitivity to market risk. Sensitivity to market risk is a way to measure how risk changes in the market can affect earnings or capital. The primary risk most banks are concerned with is the interest rate risk (IRR). Fluctuations in market interest rates determine how the net interest income varies. The simplest model to use is the Gap ratio, which measures assets and liabilities reprising within a given period (Uniform Bank Performance Report Fall 2009).

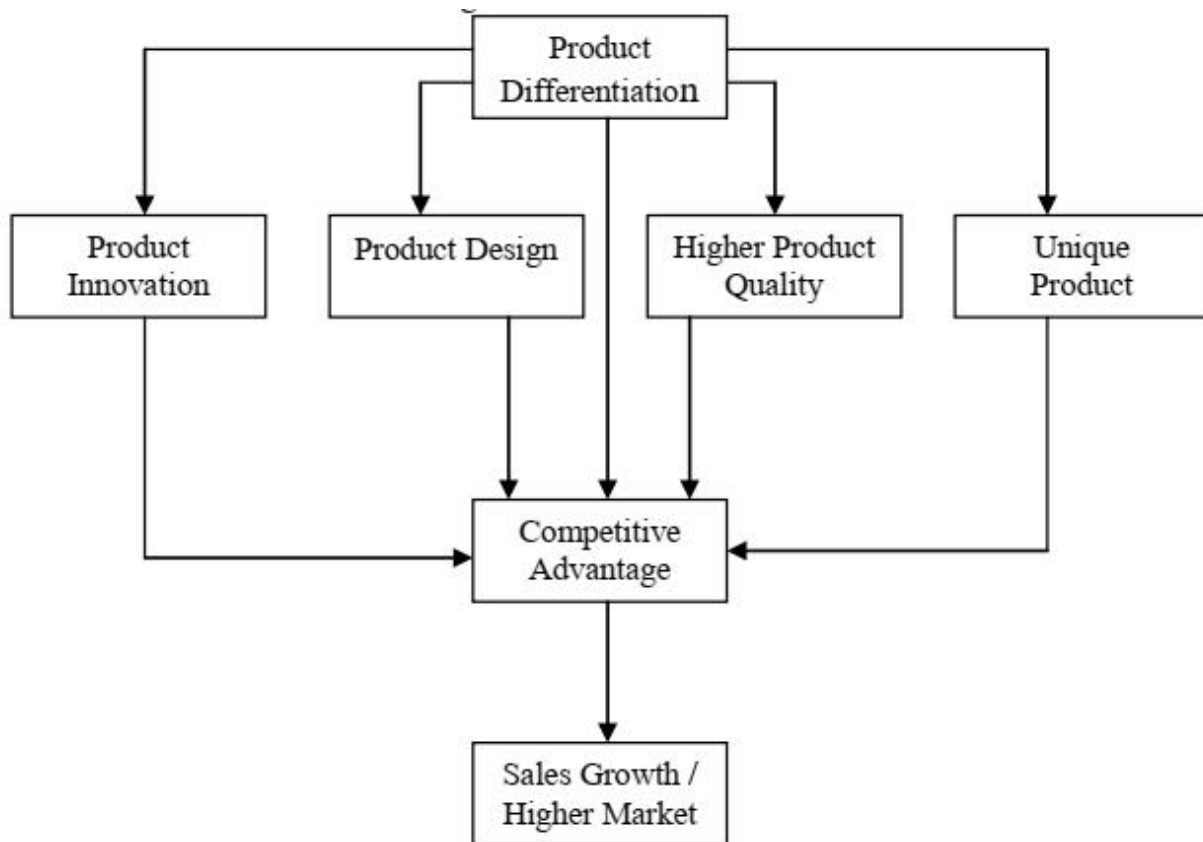
Empirical Review

The study of bank branching efficiency by Berger, Udell and Udell (1997) supports the notion that the primary roles of branches is to provide high quality product/service. Bank branching leads to profit maximization since additional offices provide convenience for the bank customers that may be recaptured by the bank on the revenue side. Larger branch networks may also serve as an advertising function. In particular branches are thought to represent the face of the banks to customers. Large branch network may indeed increase the value of a firm's brand separately from any associated gains inconvenience. Berger (2003) argues that the relevant aspects of technological change include innovations that reduce costs related to the collection, storage, processing, and transmission of information, as well as innovations that transform the means by which customers access bank services. Humphery et al. (2006) cite ATMs (automated teller machines), telephone banking, internet banking, and e-money as being among the significant innovations affecting the banking distribution system that influence banking

performance significantly. Goddard et al. (2007) add that client relation management systems, bank management technologies, and various other technologies are among the major changes in internal banking systems that also have exercised a positive influence on banking performance and profitability. If the process of innovation continues and new technologies are introduced over time, innovative banks can continue to earn high profits on the various new or improved products. A successful innovation generates a proprietary competitive position that bestows on the firm a competitive advantage and superior performance. Vertical product differentiation results into less competition, derived from a bank's ability to differentiate its services from those of its rivals through quality because it helps to provide a more stable banking system. Moreover, the banking market power generated by investing in quality does not prevent banks from operating efficiently from a production point of view. The desire by banking organizations to provide convenience to customers may lead to bank inefficiency. Banks with large branch networks may be inefficient from the perspective of minimizing costs, they may be effective at generating revenue, Berger et al. (1997) implying that horizontal product differentiation through the opening of branches leads to an increase in the bank 's earning capacity. By differentiating banking products and services, a bank gains competitive strength over other banks and also attracts many customers. Through the attraction of many customers a bank is able to increase its customers 'deposits which in turn will positively influence its performance.

Conceptual Framework

Based on the literature review mentioned above, the researcher modified the following schematic representation of the relation of the study variable developed by (Mary & Isola, 2019). The conceptual framework illustrates the association between product differentiation and performance.



Source: Dirisu, J. I., Iyiola, O., & Ibidunni, O. S. (2013)

CHAPTER THREE: RESEARCH METHODOLOGY

Research methodology explains how the study was conducted and how data was gathered. The methodology that guided the research work was used in this analysis the following factors were considered: research approach, research design, target population, sample size and sampling method, data collection methodology or data analysis process, data reliability and validity instrument, and ethically consider action.

Research Design

According to Kothari (2008), research design is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data. It represents both the structure of the research problem and the plan of investigation used to obtain empirical evidence on the relations of the study variable (Kerlinger, 1986). According to Hafiz, Robert, Adams, and David (2007), research design is a master plan specifying the methods and procedures for collecting and analyzing the required data. The choice of research design depends on objectives that the researchers want to achieve. As of Durrheim (2004), research design is a strategic framework for action that serves as a bridge between research questions and the implementation of the research strategy.

The main objective of this study is to assess product differentiation and its effect on business performance in Commercial bank of Ethiopia, Awash Bank, Debu Global Bank and Bunna Bank. To achieve this objective, the study used both descriptive and explanatory research design. The data collection and analysis also guided by a quantitative research approach. Explanatory research design enabled the researcher to examine the assessment of product differentiation and its implication on business performance of aforementioned banks.

Sampling Design and Technique

3.2.1 Target Population

A population is the group of units about which the researcher wants to make judgments. These units can be groups of individuals, customers, companies, or products (Mooi and Sarstedt 2011). The population of interest for this study was a group of private and government owned commercial banks working in Ethiopia.

3.2.2 Sampling Technique

This research used a simple random (probabilistic) sampling method. A simple random sample is a randomly selected subset of a population. In this sampling method, each member of the population has an exactly equal chance of being selected. Moreover, a simple random sampling technique proved to be effective when only a limited number of people can serve as primary data sources due to the nature of the research design and aims and objectives (Saunders, Lewis, and Thornhill, 2012). Since the scope of this study is limited to managers at different levels of CBE, AB, DGB, and BB head office, using a simple random sampling technique was appropriate.

3.2.3 Sample Size

Having selected a suitable sampling method, the remaining problem is to determine the sample size. The preference for a large sample must be balanced against the practicalities of the research resources, that is, cost, time and effort, to get the appropriate sample and respondents, from each bank, marketing department manager, risk department managers, operation department managers and chief officers were included.

In order to obtain the right sample size of the study, using appropriate formula is necessary. Therefore, to calculate the sample size of the targeted respondent the researcher used the (Yamane, 1967) formula.

Assumptions

A 95% confidence level, and $e = \pm 5\%$

$$n = \frac{N}{1 + N(e^2)}$$

n = the sample size

N = the population size

e = the desired level of precision (Sampling error)

$$n = \frac{93}{1 + 93(0.05^2)} = 74$$

Therefore, the table below shows the proportionate sampling for each bank based on the above-given formula.

Table 1: Proportionate sample distribution for each bank

Name of the Bank	Total Number of Manager at Head Office	Sample Size Selected for the Study
CBE	35	30
AB	25	20
BB	18	15
DGB	15	9
Total	93	74

Source: Own computation, 2023

3.3 Data Type and Sources

In line to the variables of interest, primary and secondary information was obtained from both primary and secondary data sources were.

3.3.1 Primary Sources

To get a good understanding and to make the findings as reliable as possible, primary data was collected from a total of 74 purposively selected managers of the four banks through survey method, in particular; via structured questionnaire. Questionnaires were distributed to the sample respondents for two weeks on daily basis, collected on the spot and appreciate the positive response rate.

3.3.2 Secondary Sources

Secondary data refers to that data which already exists prepared or developed for some purpose other than to solve the problem at hand. It is data that has already been assembled. The researcher was make use of information obtained published financial report and bank statements.

3.4 Data Collection Methods

3.4.1 Questionnaires

The questionnaire was the main instrument used in the study. The questionnaire was used to collect primary data from the respondents. It was designed as set of formalized close ended questions which were later be analyzed to provide results necessary for solving the research problem.

3.4.2 Key Informant Interview

Key informant interviews were used to collect qualitative in-depth information the people who know what is going on in the banks. The purpose of this method was to collect information from a wide range of managers- including bank leaders, professionals, or supervisors—who have firsthand knowledge about product differentiation and its effect on bank performance.

3.5 Data Analysis Techniques

Data processing and management were carried out including a series of activities ranging from editing, coding and tabulation. Once the data collection was completed, office editing was undertaken eliminate missed data, out layers and minimize measurement errors. This was to ensure data accuracy and uniformity to facilitate proper coding and tabulation. A data coding was also performed to quantify responses obtained from the survey questionnaires.

Once data management is completed, further the data was transformed to make it suitable for the data analysis tool. Descriptive statistical methods such as frequencies, percentages, arithmetic mean, and standard deviation were used to analyze and describe the data on product differentiation and other variables of interest. The effects of product differentiation were also analyzed using inferential statistical methods through the use of Statistical Package for Social Scientists (SPSS) version 23 relevant methods of data analysis.

3.6 Reliability

Reliability is about how consistent a researcher's measurements are (Cook and Campbell, 1979). To ensure the reliability of research primary data is collected from managers with responsibilities product differentiation. The data so collected through questionnaire was supported by document

analysis which strengthens reliability.

3.7 Ethical Considerations

All the research participants included in this study were appropriately informed about the purpose of the research and their willingness and consent were secured before the commencement of distributing the questionnaire. The data collected from the respondents are intended only to be used for academic purposes and specifically for the consumption of this research; and will not be provided to anybody that intends to use it beyond this study. The questionnaire was distributed to and collected from target respondents physically. Other than this, the researcher did not influence the response of any respondent. By doing so, this research is concluded without losing its validity. To keep the confidentiality of the data given by respondents, the respondents were not required to write their names and were assured that their responses were treated with strict confidentiality.

CHAPTER FOUR: RESULTS AND DISCUSSION

The major objective of the study was to examine the impact of product differentiation on the performance of commercial banks. This chapter deals with the presentation, analysis and interpretation of the findings in line with the research objectives which are; to establish level of product differentiation in CBE, AB, DGB and BB. There searcher had a target of 93 respondents but only 74 of the questionnaires administered were returned. This represented 80% of the respondents. Hence, the analysis was done using the 74 questionnaires received from the respondents.

4.1 Demographic Characteristics of the Respondents

Demographic characteristics of the respondents is addressed in this section and it contains information on gender, age, education level, level of qualification and number of years the respondent has been in the banks.

Table 2: Number of Respondent from each Bank

Name of the Bank	Total Number of Selected Manager at Head Office	Number of response
CBE	35	30
AB	25	20
BB	18	15
DGB	15	9
Total	93	74

Source: own survey, 2023

In this study, response rate defined as the total number of respondents who participated in this study. The study has target population of 93. Out of the total survey samples only 74 respondents were participated. This number indicated that the response rate is 79.6% represents the population. This response rate is believed to be enough and sufficient to proceed the data analysis and presentation.

Table 3: Gender of the respondents

Gender	Frequency	Percentage
Male	50	68%
Female	24	32%
Total	74	100%

Source; Own survey result, 2023

As shown in table 3 above the male respondents constituted (68%) of the total number of respondents who responded while the female respondents stood at (32%) of the total. This shows that the four banks staff composition for management level still dominated by males.

Table 4: Age of the respondents

Age bracket	Frequency	Percentage
20-30 years	10	13%
31-40 years	30	41%
41-50years	20	27%
Above 50 years	14	19%
Total	74	100%

Source; Survey result, 2023

From the table above, it is evident that most of the respondents lie in the age bracket of 31-40 years represented by (41%), of the total, (27%) are in the age bracket of 41-50 years, (19%) in the age bracket of above 50years and only (13%)lie in the age bracket of above 20-30years.

Table 5: Education Level of the respondents

Education level	Frequency	Percentage
Diploma	-	-
Bachelors' degree	52	70%
Masters' degree	22	30%
PhD	-	-
Total	74	100%

Source; Survey result, 2023

The findings revealed that most of the respondents 52 (70%) had achieved a Bachelors' degree, with 22 (30%) having masters 'degree respectively. This indicates that the majority of the respondents are BA holders. However, significant number 22 (30%) of the respondents are Master degree holders.

Table 6: Work Experience of Respondents

Year	Frequency	Percentage
<=1 year	4	7%
2-5 years	10	13%
6-10 years	40	54%
11-15 years	8	10%
Above 16 years	12	16 %
Total	74	100

Source; Own survey result, 2023

Table 5 show that 4 (7 %) of respondents work experiences was within the range of (<=1year) while 10 (13%) at the range of (2-5years) while the majority 40 (54%) of the respondents (6-10) years of work experience while 8 (10%) and 12 (16%) of the respondents were at the age category of (11-15) and above 16 years of work experience respectively.

4.2 Product Differentiation in the Banks

This section is in line with the first objective aimed at establishing the level of product differentiation in CBE, AB, DGB and BB. The research intended to determine whether the banks have introduced new products, improved the quality of the existing products based on customer's preference and take over competitive advantage in the banking Industry and also to find out if the banks have opened other branches across the country.

Table 7: Rating the introduction of new products

Response	Frequency	Percentage
Strongly agree	40	54%
Agree	30	40%
Not certain	4	6%
Disagree	-	-
Strongly disagree	-	-
Total	74	100%

Source; Survey result, 2023

As indicated in the table above 40 (54%) of the respondents strongly agreed to the view that the banks have introduced new products and improved the existing ones. While 30 (40%) of the respondents agreed while 4 (6%) were not certain most likely because they were not well informed about the products being offered at present by the banks. However, in the view of the majority (54%) the banks have put a lot of effort to introduce other products.

Table 8: Banks experience in improving the quality of its products

Response	Frequency	Percentage
Strongly agree	25	34%
Agree	44	60%
Not certain	3	4%
Disagree	2	2%
Strongly disagree	-	-
Total	74	100%

Source; Survey result, 2023

In the table above, the researcher wanted to find out whether the banks have improved on the quality of the products that it had been offering over the years. The findings indicated that out of the total number of respondents, 25 (34%) strongly agreed, 44 (60%) agreed, and 3(4%) were not certain while 2 (2%) were disagree. It is therefore evident from the responses obtained that the banks have improved on the quality of its existing products enabling the bank to satisfy the needs of its customers.

Table 9: Opening of new branches improves the performance of commercial banks.

Response	Frequency	Percentage
Strongly agree	45	61%
Agree	15	21%
Not certain	10	13%
Disagree	4	5%
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

As indicated table above the responses obtained while the researcher was trying to find out if the banks have opened other branches country wide.61% strongly agreed, 21% agreed, 13% were not sure while the remaining 5% of the respondents disagree, majority of the respondent indicate that through, opening of several branches create a room to promote banking products in various parts of the country in terms of product innovation ,design, quality and uniqueness and which resulted increased bank performance too.

Table 10: Whether new branches enhance competition

Response	Frequency	Percentage
Strongly agree	10	13%
Agree	60	81%
Not certain	3	4%
Disagree	1	2%
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

Findings in the table above revealed that 13% strongly agreed, 81% agreed, 4% were not certain and that 2% disagreed on the idea of banks opening new branches with the aim to enhance competition. From the above responsive it is evident that through the opening of numerous branches in various location Banks have been able to compete with provided innovation, product design, quality and uniqueness with other banks.

Table 11: Whether customer satisfaction is achieved through introduction of new products

Response	Frequency	Percentage
Strongly agree	65	88%
Agree	6	8%
Not certain	4	4%
Disagree	-	-
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

The table above reveals that 88% strongly agreed, 8% agreed, 4% were not certain. The findings above indicate that through introduction of new products by the bank believed to have a positive implication on bank profitability and customer satisfaction. It's understood that the key success factors for banks include higher operational efficiency, higher flexibility, and the introduction of standard new products.

Table 12: Whether innovative product and unique products create a competitive edge and improve bank performance.

Response	Frequency	Percentage
Strongly agree	20	27%
Agree	50	67%
Not certain	3	4%
Disagree	1	2%
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

From the table above, the responses from the various respondents (27% who strongly agreed and 67% who agreed) indicate that the existence of innovative product and unique products in Banks

in comparison to other banks have enabled the banks to gain a competitive edge and improve bank performance in the banking industry. However, 2% of the respondents disagreed and the other respondents represented by proportion of 4% the total respondents were not certain about the effects on products available on the bank's competitive edge.

Table 13: Whether improved quality and new product design vs. competitive advantage

Response	Frequency	Percentage
Strongly agree	45	61%
Agree	20	27%
Not certain	7	9%
Disagree	4	3%
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

From the table above it is evident that most of the respondents (45% strongly agreed and 27% agreed) were of the view that improvement in product quality and product design encourages a bank to charge higher prices for its products because with improved quality and design products clients will demand more of those products so as to meet their financial needs.

4.3 Banks Financial Performance

This section is aimed at establishing the level of performance of the banks. The researcher conducted the survey with the aim of finding out the level of performance based on the bank's profitability level. In terms of product Innovation, product design, product quality and uniqueness. Furthermore, the study reviewed the CAMEL business model of management quality which, is one of qualitative measurement of business performance, the rest under CAMEL model are quantifiable and also management is responsibility for setting and implementing the strategic decision and plans that ultimately to determine: capital adequacy, asset quality, earnings quality and liquidity too.

Table 14: The level of your bank business performance (Profit /Growth) depends on the product factors.

Product factors	Response	Frequency	Percentage
Innovation	High	35	47%
Product design	Medium	25	34%
Quality (Comprehensive use)	Low	10	14%
Uniqueness	Nil	4	5%
	Total	74	100%

Source; primary data (Survey result, 2023)

From the table above, the responses from the various respondents of 35 (47% of product factors in innovation response is high, 34% whose product factors in product design of 25 response is medium), 14% product factors in product quality of 10 response is shows low and finally 5% in product factors of uniqueness of 4 responses is nil, of which indicate that the existence of Innovation , product design and quality products has enabled banks level of business performance is impacted by the product factors , in Banks in comparison to other banks have enabled the banks to gain a competitive edge in the banking industry. However, the impact of unique products shows nil.

Table 15: Whether the bank has good internal cash controls and accounting Processes to ensure liquidity.

Response	Frequency	Percentage
Strongly agree	20	27%
Agree	35	47%
Not certain	13	18%
Disagree	6	8%
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

The table above indicates the responses obtained by the researcher while trying to find out whether the bank has good internal cash controls to ensure good liquidity level of the bank. From the findings, 27% strongly agreed, 47% agreed, 18% were not certain while 8% of the respondents disagreed. It is therefore evident that the bank to a high extent maintained a high level of liquidity given the existence of good cash controls and accounting policies.

Table 16: Whether the banks have adequate loan and investment policies, Procedures and practices.

Response	Frequency	Percentage
Strongly agree	65	87%
Agree	8	11%
Not certain	1	2%
Disagree		
Strongly disagree	-	-
Total	74	100%

Source; primary data (Survey result, 2023)

The findings in the table above indicate that among the respondents, 87% strongly agreed, 11% agreed, 2% were not certain. From the findings it is correct to say that the banks have put in place adequate loan and investment policies thus being in a position to control the occurrence of non-performing loans leading to favorable level of asset quality.

Table 17: Whether the bank's liquidity is adequate to cover short term Obligations

Response	Frequency	Percentage
Strongly agree	20	27%
Agree	40	54%
Not certain	8	11%
Disagree	4	5%
Strongly disagree	2	3%
Total	74	100%

Source; primary data (Survey result, 2023)

From the above table, 54% strongly agreed, 27% agreed, 11% were not certain, 5% disagreed while the other remaining 3% strongly disagreed. The findings above are an indication that the banks have a high level of liquidity which enables it to meet its short term obligations as they fall.

4.4 Implications of Product differentiation on financial performance of the banks

This part is tried to establish the relationship between product differentiation and performance in CBE, Awash bank, Buna Bank and Debub Global Bank .The searcher ought to find out how improvement in quality of the banks' products and introduction of new products impacted

performance of banks.

Table 18: Relationship between product differentiation and performance

Variables	Estimation	Product differentiation	Performance of the selected banks
Product differentiation	Pearson Correlation	1	0.405(*)
	Sig. (2-tailed)	.	0.045
	N	74	74
Performance of the banks	Pearson Correlation	0.405 (*)	1
	Sig. (2-tailed)	0.045	0.045
	N	74	74

Source: Own Model, 2023 and *Correlation is significant at 5% significance level.

The Pearson's correlation is found to be $r = 0.405$, implies that product differentiation and performance of the banks is found to have a positive association. Even though the result revealed a weak positive relationship between product differentiation and performance of commercial banks, its implication is positive and leads to increase the financial performance of the bank. The above results reveal that through introduction of product design, unique products and opening of several branches can lead to improvement in the performance of the banks. The results imply that banks need to increased focus on product differentiation strategies to increase performance. The study is significant to bank managers because it provides them with information on one of the strategies (product differentiation) that managers can use to increase the performance of their banks. Implementing this strategy would result in increased performance and benefit the stakeholders due to the increased return on investment.

CHAPTER FIVE: SUMMARY, CONCLUSION, AND RECOMMENDATIONS

This chapter consists of the summary of the findings, conclusions drawn from the analysis part and the recommendations forwarded by the researcher in order to improve the performance of commercial banks of Ethiopia through product differentiation.

5.1 Major Findings

- ❖ It was also noted that from the introduction of new products, the bank has been able to meet the needs of its customers given that through vertical product differentiation,
- ❖ It was found out that most bank have introduced high quality products and services distinct from those offered by other banks, furthermore continuing to develop and alignment based on customers preferences will merit to increase the performance of banks.
- ❖ With the improvement in innovative and introduction of other new products, the banks have increased the number of its clients.
- ❖ It also noted that the majority of the banks have the advantage of increasing the prices of its products thus increasing its level of earnings and still maintaining its customers who are driven by quality and Innovations too.
- ❖ The findings also indicated that the banks have opened a number of branches country wide. This has enabled the bank to increase on its customer base and get an advantage to promote the newly added products to the public at large. Besides this, the banks are in a position to compete effectively with other banks.
- ❖ The study indicates that the banks have high level of liquidity and therefore it is usually in a position to meet its short term obligations.
- ❖ Through the introduction of new product design to banking industry will boost customer base of Ethiopian banks, consequentially it will reduce the competitive market and increase deposit balance and performance too.
- ❖ The study used Pearson's correlation coefficient to find the relationship between product differentiation and performance of the banks and the finding revealed a positive relationship of 0.405 between the two variables. This shows a moderate positive relationship between product differentiation and performance of the selected banks.

5.2 Conclusions

From the responses obtained from the respondents, found out that the bank has taken up product differentiation as a strategy to help the banks improve on its performance. This has been achieved through the introduction of unique products, new product design, launching Innovative products and also through the improvement in quality of the existing products. Furthermore, the respondents indicated that the bank 's performance was high through gauging the bank 's performance in terms of profitability, capital adequacy, asset quality, management quality, earnings and the level of liquidity.

The findings indicated a positive relationship between product differentiation and the performance of commercial banks with a positive correlation of the two variables at 0.405.

5.3 Recommendations

Based on the findings and conclusions obtained during study, the following recommendations were proposed: -

- ❖ The marketing department and or research and development department of the respective banks should carry out more survey to ensure that banks products are designed in such a way that they meet the needs of their customers.
- ❖ In the competitive environment of banking industry in Ethiopia, product design plays a crucial role in untried ideas in to workable products, which focuses on innovative ideas while delivering value to meet customer expectation. For Instance product design based on Gender, age and religion etc.
- ❖ Through vertical differentiation Ethiopian Banks have the ability to differentiate its product, allowing and knowing customer preference from those of its rivals through quality, is positive because it helps to provide a more stable banking system. For instance IFB banking system, Diaspora community banking etc.
- ❖ The banks should also add the number of products, so as to ensure suitability and satisfaction of their customers.
- ❖ The banks should also improve on its credit policy measures to ensure that it gives loans to credit worth customers thus avoiding incidences of loan defaults by customers.

- ❖ For better and improved management quality practice in Ethiopian baking industry ,leads for those banks in to success and make them a better competitor locally and able to penetrate in the international market by providing Innovative product, product design ,unique and quality products too.

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DEAR RESPONDENTS,

QUESTIONNAIRE

The aim of this research is to examine **THE IMPACT OF PRODUCT DIFFERENTIATION ON BUSINESS PERFORMANCE OF COMMERCIAL BANKS IN ETHIOPIA: THE CASE OF SELECTED BANKS**. To this end, the study is designed to gather data from managers and employees through questionnaire for which the voluntary and cordial engagement of the participants is vital.

I am hereby kindly requesting you to complete this questionnaire in order to achieve the intended research objective. The information provided will be used only for academic purpose and will be treated with strict confidentiality.

If you have any questions or concerns about completing the questionnaire, you can raise questions at any moment. By completing and submitting the survey, you are indicating your consent to participate in the study. Your participation is appreciated and I would like to thank you in advance.

Regards;

Andualem Assefa

PARTI: BACKGROUND INFORMATION

Instruction: Please select the correct response by putting tick “ ” marking the space provided

No	Items	Category	Response
1	Name of Your Bank	CBE	
		AB	
		BB	
		DGB	
2	Gender	Male	
		Female	
3	Age	20-30years	
		31-40years	
		41-50years	
		Above50years	
4	Education Level	Diploma	
		Bachelor’s Degree	
		Master’s Degree	
		PhD	
5	Experiences in the bank	<=1 year	
		2-5years	
		6-10years	
		11-15years	
		Above16years	

PART2: PRODUCTDIFFERENTIATION

Tick the appropriate alternative option

1. Do you think Innovation on banking product has reduced operational cost of rendering existing banking service and has impacted business performance of the bank?

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

2. **Your bank has introduced new products and improved on its existing products.**

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

3. **Your bank has opened a number of branches across the country.**

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

4. **By opening more branches, the bank has been able to compete more effectively with other banks.**

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

5. **Customer satisfaction has been achieved with the introduction of new unique products.**

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

6. Introduction of unique products by your Bank has enabled it to compete effectively in the banking industry.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

7. With improved product quality a bank can charge higher prices for the services and products it offers.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

PART3: BANKPERFORMANCE

1. Your bank has adequate loan and investment policies, procedures and practices

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

2. The liquidity level of your bank is good enough to enable the bank to pay its short term obligations as they fall due.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

3. Your bank has good internal cash controls and accounting processes.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

PART4: RELATIONSHIP BETWEEN PRODUCT DIFFERENTIATION AND PERFORMANCE OF THE BANK

1. Product differentiation is a source of competitive advantage to banks thus improving its performance.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

1. Opening of new branches improves the performance of commercial banks.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

2. New bank branches encourage provision of high quality services by the bank.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree

3. Your bank offers favorable interest rates thus attracting many customers which results into performance.

Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree