The Effect of the Competitive Advantage on Business Performance: - in the case of Commercial banks in Addis Ababa, Ethiopia

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Statement of Declaration

I the undersigned, thus declare that this thesis, “The Effect of the Competitive Advantage on Business Performance: - in the case of Commercial banks in Addis Ababa,” is my own original work. I conducted the current work on my own with the advice and assistance of the research advisor, Andnet worku (PH.D). Any other contributors or sources used in the study have been properly recognized. Furthermore; this research has not been submitted for the award of a degree at this or any other university.

Mahlet Shibru	____________________	____________________
Name of Author	**Signature**	**Date**

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Abstract

This study sought to identify the effect of sources of competitive advantage on business performance in the context of four selected commercial banks in Addis Ababa. Commercial Banks will gain competitive advantage by learning the best alternative source of competitive advantage in terms of its effect on performance of banking industry. The study covered the 4 commercial banks in Addis Ababa. The sample consists of 436 employees working at four commercial banks in Addis Ababa. Namely, data was collected from employees of the Commercial Bank of Ethiopia, Dashin Bank S.C, Awash Bank S.C and Bank of Abyssinia S.C. The study adopted a cross sectional survey research design; moreover the research study used primary data the primary research data was collected from the sample size population using a questionnaire. The study used convenience sampling approach to select a sample from the four commercial banks in Addis Ababa. The data analysis was done using SPSS, regression analysis and ANOVA analysis methods was used to analyse the collected data. The study sought to identify if service differentiation strategy and service innovation strategy had an effect on business performance of the selected commercial banks. The study findings shows that service differentiation strategy have a statistically significant effect on the performance of commercial banks in Addis Ababa, while service differentiation strategy do not have a statistically significant effect on the performance of commercial banks in Addis Ababa.

Key terms: - *Commercial banks, competitive advantage, performance, service differentiation strategy, service innovation and Addis Ababa*

List of Acronyms

CBE: Commercial bank of Ethiopia

ABS: Bank of Abyssinia

ATM: Automatic Teller Machine

AWS: Awash Bank

DAS: Dashen Bank

DBE: Development bank Ethiopia

GDP: Gross Domestic product

KBV: Knowledge-Based View

NBE: National bank of Ethiopia

POS: Point of Sale Machine

RBV: Resource-Based View

ROA: return on assets

USA: United States of America

Chapter One

Introduction

1.1. Background of the Study

In business establishing sound differentiation strategy to gain competitive advantage is a major priority among many firms and it is not always an easy job to accomplish. Focus in differentiation establishes stiffer competition (Kumar, 2007). Now days, the global banking business environment has been characterized by strong competition from within and without (Shaikh, Hashmi, Nazir, & Chen, 2019). Privatization, liberalization , and also deregulation have been the major drivers of external competition (Vives, 2016), while competition from within have the big attribute to tremendous number of banking service providers, offering more or less the similar products and service.

Competitive strategies raise the several actions that firms undertake to hold up and resist pressures arising from both external and internal competition in order to gain a competitive advantage in the industry. Competitive strategies are majorly categorized into two: the first competitive strategy is cost leadership and the other one is product differentiation strategy (Porter, 1980). So, firms' pursuit to achieve exceptional performance may adopt either a differentiation strategy. Not both simultaneously or this would lead to getting in the middle ahead to poor performance and resource wastage (Porter, 1980).

According to Michel Porter as referred by Mekie, (2014), within the industry structure and which the firm competes and how they positions themselves against the competition, will define or asses the performance of the each specific firm. In the other hand Barney and Peteraf, (2003), promote Resource based view approach to strategy application. This approach considers the internal environment facing an organization and focus on the internal capacities of the organization in formulating strategies. The resource based approach contradict that resources are suddenly valuable, scares, imperfectly imitable and complementary. And also, they are a foundation of competitive advantage in the market, (Barney and Petraf, 2003), and to sustain performance differences among firms, (Hoopes, 2003)

One of the prime targets of financial institutions is resources mobilisation, special local saving and transforming them to become investment, (Alemayehu Geda, 2006). The basic goal of any bank is to gain maximum profit, to be sustainable in the market and also to doing any other business (Bobakova, 2003). Total bank assets growth rate, number of networked branches, capital adequacy, loan loss planning to credit risk (total loan), growth rate of total loan, aggregate loan to total asset or liquidity, inflation rate and policy change to respond the GFC and as well economic development (GDP) are most of the important variables that used to estimate or rate the performance of banks; performance measured in terms of profitability. In early 2008, in United States of America (USA) financial break down was happened in general indirectly affect any other countries financial system. And countries regulators' applied different policy measures to face the change, on average most of countries had negative impact on profitability of commercial banks.

Due to the globalization and increased competition, the strategy management has become important and also an interesting area to study. At the moment the Ethiopian banking sector including national bank of Ethiopia (central bank of Ethiopia or NBE), one state owned development bank (DBE) and a government owned commercial bank and other twenty one private banks.

An evaluation of the business Performance in banking industry enables to understand the level of competition within the banks in a sector or in the market will improve (Berger, 2005). Especially Ethiopian banking sector is distinguished or defined by the massive and dominated the sector by one bank which is called commercial bank of Ethiopia and also the bank has no counterpart state bank.

It is obvious that commercial bank of Ethiopia (CBE) approximately annual profit is higher than the aggregate profit all of the other remaining commercial banks in the Ethiopia. (Alemayehu Geda, 2006), the leading cause is that the competition in the banking industry is not on the equivalent platform. In the early stage initial capital of commercial bank of Ethiopia came from the previous former banks capital in the country before 1974.

Nowadays, performance means various things to shareholders of commercial banks. Equity holders give priority to profit generation, like on make certain of a future return on their actual holding. In other hand depositors are more interested in a long-term ability of the bank to sustain their savings but interests are safeguarded by supervisory authorities like central bank (European Central Bank, 2010). In accordance with Rahman, 2011 product differentiation is one of a business competitive strategy of firms' attempts to gain a competitive advantage by advancing the value of firm's products and services which are in relation to the value of other firm's products and services. Product differentiation is predominating throughout the financial industry.

This study, set off to examine the impact of the sources of competitive advantage on business performance of commercial banks, with special focus on the contributory status of its several factors in affecting performance. A cross sectional explanatory design has been used. The special intention of this study is to investigate the impact service differentiation strategy and service innovation strategy on performance of commercial banks in Addis Ababa, Ethiopia. The target population in this study have been of commercial banks in Addis Ababa, Ethiopia. Both primary and secondary data have been used. Primary data have been gathered through semi-structured questionnaires guide. Secondary data have been collected using records and document reviews. Descriptive statistics ought to be used to summarize the futures and characteristics of the crowd data. Inferential statistics have been drawn from Pearson's association and regression analysis.

History of Commercial Banking in Ethiopia

During March 1905, Modern banking were initiated in Ethiopia afterwards the arrangement between Emperor Minilik II and Mrs. Gillivray (representative of private bank owned by the National Bank of Egypt, an affiliate of the Bank of England), which was Abyssinia bank (included central and commercial bank)", on 29th August 1931 it was purchased by the Ethiopian government and established as Bank of Ethiopia. In August 1942, the state Bank of Ethiopia is established (79 years ago) thereafter in the year of 1963 it is classified in to three banks which are commercial bank of Ethiopia, development bank of Ethiopia and also construction & business bank of Ethiopia.

"Addis Ababa Bank Share Company the first private owned commercial bank was established by Ethiopians initiative and association with National and Grind lay Bank, London which had 40 percent share and also started operation with the initial capitals of two million in 1964." In that same year the state bank of Ethiopia splits into two that was national bank of Ethiopia (central bank) and commercial bank of Ethiopia (CBE). During 1974, all commercial banks merged short time later named under the private Addis Ababa bank, furthermore in 1980 under use of new directives its name transforms to Commercial bank of Ethiopia (CBE), Alemayehu (2006).

1.1 Statement of the Problem

In business environment the rate of completion and innovation rapidly increase commercial banks to gain product differentiation expertly level knowledge and experience generate competition (Lin and Seng, 2004). Some sources of research emphasize the value of being unique. Differentiation as a business strategy helps firms to be capable of creating products with more value (Langfield Smith and Baines, 2003). Focus of this study was the effect of service differentiation strategy and service innovation strategy on business performance which has been widely studied with varying outcomes. For example some studies show that a significant relationship between product differentiation and firm performance (Dirgantara, Violinda, & Sufian, 2016; Omisore, Adegbite, Ayinde, & Osinowo, 2019; Sagheb & Ghahroudi, 2018), in other hand Sharma, Kharub, Patle, & 2015; Agyapong & Acquaaha, 2015; Demba, Ogal, & Muli, 2018, studies show that no significant relationship between the two concepts. There is also other research indicating that the relationship between product differentiation strategy and firm business performance is contingent on factors such as managerial, technological and marketing capabilities (Ortega, 2015).

In banking industry financial performance is affected by many contributing factors such as bank capital, size, bank structure, adequacy, credit risk, liquidity risk, inflation, economic development and so on. Although some part of them have an adverse consequence on profitability, others could have a more of favourable impression. Banks profitability it could be determined by banks itself endogenous factors (specific factors) while other different factors are macroeconomic (exogenous factors). “Knowledge of the essential external and internal factors that influence the financial or business performance of bank is crucial for policy makers and bank directors along with regulators in starching future policies aimed at enhancing the performance of the banking sector” (Kosmidou et, 2008). Effective competitive strategy empowers a business to influence the environment on its competitive advantage and even protect itself against business competition. In the long-term to succeed in industry, organizations must compete wisely (effectively and effectively) and perform against their competitors in a dynamic environment (Scullion and Trethowan, 1997). “Changes in profitability are an influential contributor to economic growth through the important profits has on the savings decisions and investment of companies (Ayanda, 2005)”. In general transformation in profit extends for cash flow position growth in the company and lead for financing of the other lines (wings) in the sector.

Bank performance have great significant in country development because of it has impact on the whole performance of the economy. Best performance of banks assist economic growth by making the investment of saving process more efficient, sound, and easier to reach. On the other hand, the terrible performance of a one single bank, not only affect its depositors and shareholders of specific bank but also the whole other banks as well as all other business, Moreover, while several researches on bank performance have been already conducted widely for European and US markets and for bigger emerging markets, comparatively not a lot is known about bank performance within other developing countries like our country Ethiopia (Lacewell, 2003; Webb, 2003; Salamouris and Halkos, 2004; Rao and Dev, 2006).

Nevertheless, it is not clear whether the product differentiation strategies have any effect on the business performance in terms of annual sales revenue. No study or research has been carried out to determine the impact of the sources of competitive advantage on business performance of commercial banks in Ethiopia, and thus a gap of knowledge. So this justifies the demand for study in this topic area. Thus, the research question of study desired to answer is: The impact of services differentiation strategy and service innovation strategy on performance of commercial banks in Addis Ababa, Ethiopia.

1.3 Research Question

1.3.1 General Research Question

What is the impact of the competitive advantage on business performance of commercial banks?

1.3.2 Specific Research Questions

This study attempted to study the effect of the sources of competitive advantage on business Performance, in the case of Commercial banks in Addis Ababa, Ethiopia. Thus, the following specific research questions are formulated.

i. To what extent does service differentiation strategy affect performance of commercial banks in banks in Addis Ababa?

ii. To what extent does service innovation strategy affect performance of commercial banks in banks in Addis Ababa?

1.3 Research Objectives

1.3.1 General Research Objectives

The aim of this study is to investigate the impact of the sources of competitive advantage on business Performance of commercial banks in Addis Ababa, Ethiopia.

1.3.2 Specific Research Objectives

i. To determine if service differentiation strategy affect performance of commercial banks in Addis Ababa.

ii. To assess the extent to which service innovation strategy impact performance of commercial banks in Addis Ababa.

1.4 Significance of the Study

This study provides an assessment of the sources of competitive advantage on business performance and the position of industry context circumstance this relationship. This study also provides some exposure to the rapidly growing Ethiopian competition in the market. This kind of information is likely to be of big value to strategy managers who is seeking to gain a competitive advantage within a rapidly changing Ethiopian banking industry.

commercial banking has become an entire part of the of Ethiopian consumers lives and has resulted in over 21(twenty one) banks competing for sales volume in the marketplace and also the need for identifying the sources of competitive advantage and thus good performance in industry. Most of research have been done on branding, this study have focused on the impact service differentiation and service innovation on business performance. The research approaches and methods have been adopted on this study will serve future researchers who wish to investigate related or similar phenomena in this research area.

1.5 Scope of the Study

The study to be conducted is broad in nature in order to consider impact of service Differentiation Strategy and service innovation strategy on business Performance of commercial banks. Because of this, this study focus was on assessing impact of these sources of competitive advantage on business Performance of commercial banks only. Conceptually the study has been covered the assessment of business Performance of Commercial banks in Addis Ababa to be considered under study. Geographically the study only covers branches of Commercial banks located in the capital city, which is only in Addis Ababa, Ethiopia. So the study did not cover any other branches of Commercial banks outside of the capital city.

CHAPTER TWO

LITERATURE REVIEW

To gain competitive advantage in a banking industry, we need to understand the forces in industry in order to adopt an appropriate and effective competitive strategy. So, this chapter presents the theories advanced on strategies to gain competitive advantage and the previous studies that have been done. The chapter is segregated into theoretical literature, empirical literature and summary.

2.1 Theoretical Literature

Theoretical part was integrate conceptual and classified structure by relating explanations predictions and descriptions in a systematic manner. A theoretical system comprised propositions which are interrelated in a way that permits some prepositions to be derived from others. Such as Durkheim's theoretical system which provides a structure for a general explanation of empirical phenomena; the scope is limitless to one specific aspect of the phenomena to be explained. A theoretical system also has been consisting of a category of arrangement or propositions. This propositions form a deductive system which has been the opposite of their status within a conceptual framework. This theoretical framework mentions a structure of concepts which is already tested. It consist principles, theories, generalizations and research findings which are relatively related to the present study under investigation.

Acquaaha & Agyapong, 2015, competitive intensity and Atikiya, 2015 amongst other differentiation in business apples to the strategy of marketing a specific product and service in a way that makes it compete against other firms' products and services. This theory was proposed in assumptions of monopolistic competition by Edward Chamberlin during 1933. Generally spiking, it include differentiating firms' offerings from competitors' products over and above a firm's its own product and service. In the concept of product differentiation Knee and Walters (1989), and later on Scholes and Johnson (2002) conducted a research and discover that distinctive marketing competencies are skills which the businesses can develop to form the foundation for competitive advantages against their competitors. In other word differentiation strategy have the potential of creating competitive advantages to a firm which contributes to improved business performance.

2.2.1 Generic Strategies

The model was early originated by Michael Porter in his book that is, "Competitive Advantage: - Creating and Sustaining Superior Performance " in 1985. Michael Porter proposes that there are three fundamental ways (generic strategies) in which firms might maintain sustainable competitive advantage against its competitors.

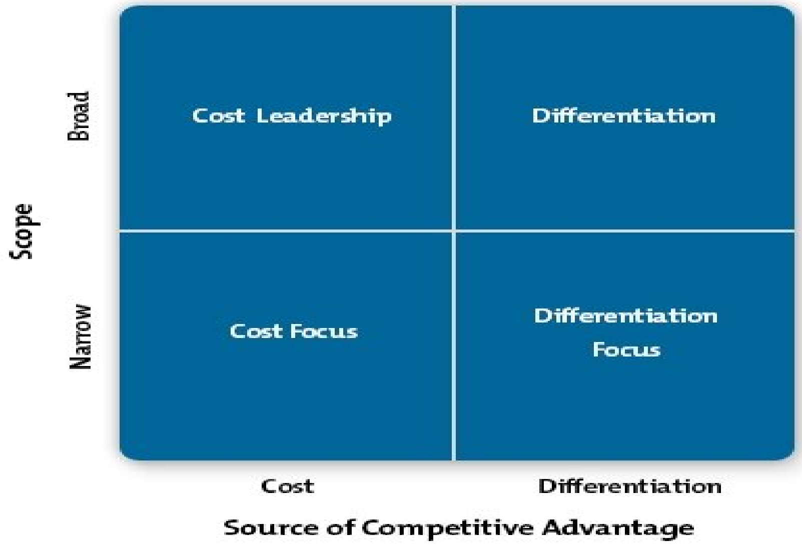


Fig1: Generic competitive strategy, Porter (1980)

1) Cost Leadership – determine by own the lowest per-unit cost among competitors and profits or returns will be low but higher than firms competitors, in other word entertaining lowest cost against a few competitors where each individual firm gain high profits and pricing power. Beside to this cost leadership determine independently of market framework.

2) Differentiation - Differentiating the product offering is all about creating firms own market to some degree by being unique. There are various dimensions to differentiation like different features, different design, Brand image, and new technology. A differentiation strategy could gain differentiating along two or more of these approaches.

Executing a successful differentiation strategy usually demand the Strong marketing skills, exclusivity, Product innovation, applied research and development and customer support and so on

3) Niche Strategy - the strategy overall centre a specific group of customers, product division segment or geographical market. Niche strategy is all about serving a specific target (product, customer, or location) out of the whole market. In addition to this a focus or niche strategy means applying either a differentiation or low cost advantage in a narrowed portion of the market that firm operate in. For that reasons, firm forced to take a defendable place in market.

Banking industry has proved to be in a relatively stable position for decades. As Reyn olds, 2005 says lately banking industry is confronting dynamic intense competition in a new unrestricted environment. According to Porter, 2004, flourishing product differentiation strategies contribute to competitive advantage and superior performance. The capacity of a firm to industry a competitive advantage directly relays on the sustainability of the firm that competitive advantage its industry. The transformation in business environment at which point the marketplace is rising competitiveness and the rate of innovation is increasing, the combination of two pressure the emergence of comprehensive knowledge based economy, which have result commercial banks to conceive that product differentiation strategies is their major strength and asset (Kruger & Snyman, 2004).In the business environment of banking sector in the country has drastically (forcefully) changed resulting in some commercial banks to launch several branches across borders and that increasing competition in the banking industry internationally (Porter, 2004).

2.2.2 Knowledge-Based Theory

The theory of Knowledge based firm claims knowledge as the most effective and strategically significant resource of firm. The theory advocators argue that because of resources of knowledge-based are usually socially complex and also difficult to Pattern or imitate, divers knowledge capabilities among firms are the major determinants of superior performance and maintain competitive advantage. The knowledge is inclusive and carried multiple concepts including organizational systems, policies, documents, as well as employees, culture and identity of the organization.

According to literature of strategic management, this prospect originated and broaden the resource-based view of the firm (RBV) primarily issued by Penrose (1959) and later on expanded by Conner and Barney, 1991. Along with, resource-based view of the firm mainly acknowledged the importins of knowledge in firms to gain a competitive advantage, advocator of the knowledge-based view defend that the resource-based aspect does not go far enough. Specifically, the RBV considered knowledge as a holistic resource unlimited characteristics. Information technologies can play a crucial role in the knowledge based view of the firm in that it can be used to assist, analyse and improve largescale firm external and internal knowledge management (Leidner and Alavi 2001).

- From theoretical perspective - The knowledge based view theories of the firm that have consist the different disciplines like economics, sociology and philosophy and also it is an integrated epistemological and ontological groundwork. Afterward, in order to develop effective a theory, a borderline is harmonies assumptions are required in order to be improved and consistent. In other word to be integrative across these different views it is better to focus on the strategic management multidisciplinary perspective, February, 2001 Integrated Concept of knowledge.

The first disagreement is about the degree of analysis at which knowledge is a legitimate or valid concept. According to Grant 1996, knowledge is exclusively inhabited in individuals. However, March and Simon (1958) as well as Levitt and March (1988), come up with organizations knowledge which is beyond that corporal in individuals through organizational learning.

- Firm existence - Loasby, 1998 and later on Williamson, 1999, extend on the logical offered by cost of economics transaction, explaining in many variations that contracts support to assure that availability of reserves of capabilities when they are necessary, that firms are more capable to manage motivation than markets (Frey and Osterloh, 2000).

Others argue that firms only exist to create special environments for certain knowledge tasks can take place. (Levinthal and Cohen, 1990) Firms exist in order to create absorptive capacity or Grant, 1996 and also Grant & Baden-Fuller, 2000 say that Firms exist to offer the environment for individuals to combine their specialize knowledge. Firms gain competitive advantage in the markets by their capacity to manage the bounded of knowledge (Kogut & Zander, 1992).

- Firm boundaries perspective - (Levinthal and Cohen, 1990) use firm boundaries in order to examine internal technology and also external technology or (Nonaka, 1994) communities of interaction but did not give brief explanation when and why exactly these boundaries exist. The Economics claim that a boundary depends on the bureaucratic or procedural correctness costs related with the decision of taking a transaction out of the firms industry or market and manage it internally (Williamson, 1999; Osterloh & Frey, 2000).

Others (Spender, 1996, 1998) see boundary setting as tool of management for resulting defining the difference between knowledge and data and also interpretive flexibility. Carlile, 2000, concern only with separating boundaries of the firm from the environment and did not consider other boundary types such as functions that could be critical point in carrying out of knowledge processes.

- Firm behaviour perspective - the direct result of a firm experiencing its capabilities, consequence in action that is observed internally as well as externally. Most of the theories developed by these scholars have entailment for behaviour internally or inside the firm. these views expressed very diverse, they accrue to cluster or group around the operation and development of several knowledge based capabilities knowledge creation (Nonaka, 1994; 1999), integration (Grant, 1996; Grant and

Baden-Fuller, 2000), protection (Liebeskind, 1996; Hallwood, 1997), replication (Osterloh & Frey, 2000), absorption (Cohen & Levinthal, 1990).

- Firm performance perspective – the most important aspects of knowledge based theory as the firm a strategic management perspective must be making the relationship or connection between knowledge and performance (Williamson, 1999). (Nahapiet & Ghoshal, 1998) differences in performance of the firm may explain differences in the capability to create and achieve social capital or (Teece, 1998) to gain competitive advantage which is originate from the knowledge assets.

2.2.3 Resource -Based View Theory

The resource-based view theory is all about attracting attention to the firm's internal environment as a major means for competitive advantage and focus on the firms resources that have been developed to compete in the business environment. On the development of strategic thinking the early strategy development stage focus on the internal factors of the firm (Hoskissonet al, 2011). referring to Furreret al,(2008), the focal point of examine changed from the structure of the industry, for example, the five forces model and the Structure Conduct Performance or SCP paradigm to the internal structure of firm, with the important elements of the Resource Based View. Starting from then, resource-based view of strategy has been developed as a theory of competitive advantage (Hoskissonet al, 2011; Furreret al, 2008).

Penrose (1959), the founder of the RBV suggested that deployed and used by the organization are really more important than industry structure. But the term resource-based view' was formulated or generated by Wernerfelt (1984), who also believes that the firm as a pack of resources and assets which are bound semi-permanently to the firm. Notion of core competencies established by Hamel and Prahalad (1996), which was all about giving attention to an important category of resource a firms capabilities. In addition to this Barney (1991) debate that resources are primary source of competitive advantage of a firm.

Thus, firm's to be competitive resources firms must be: unique (resource must be unique by definition and expected discounted future average returns); worthy (resource must be a value creating strategy, by either outstanding performs against its competitors or minimizing firms weaknesses); peerless (competitors are not able to duplicate this strategic asset perfectly) and must be non-interchangeable. Thus, true competitive advantage requires the firm's resource to display each of the four characteristics (valuable, rare, inimitable and non-substitutable) to be a possible source of a sustainable competitive advantage (Crook, Ketchen, Combs, and Todd,2008; Ludwig and Pemberton, 2011).

2.3 Empirical Literature Review

According to Robinson and Dess, 1984, Measurement of firm performance include such as general financial indicators as sales, profits and cash flow return on equity and also growth. For qualitative data Content analysis has been caring out. Clutterbuck and Goldsmith, 1984, Non-financial measures include creativity and market standing (Hooley and Lynch, 1985, Saunders and Wong, 1985). Many researchers who are from different theoretical backgrounds has been studied the value of being different. Most researchers in strategic management agree that a firm may gain competitive advantage which leads to less competition by differentiating itself from others firms (Hannanet al, 1990; Porter, 1991, Mezias and Baum, 1992; Barney, 1991).

A company may have several elements of differentiation strategy but finally it is only a matter of customer perception, Barney (1997). According to Porter, 1998 approach to differentiation can take many forms such as product features, technology, brand and design image, customer service or dealer networks. Pearce & Robinson, 1997 says that all these create perpetual barriers against other firms or competitors. A differentiation strategy is when a firm offers products and services with features which are unique that customers value (Ndubai, 2003).

Alamdari and Fagan (2005) carried a model-based study, by discussing the effectiveness of the low-cost model and the effect on the profitability of banks. The result revealed that bank with the lowest costs would earn the highest profits in the event when the competing products are essentially undifferentiated, and selling at a standard market price. Companies following this strategy place emphasis on cost reduction in every activity in the value chain. They however found that the company's focus on reducing costs, even sometimes at the expense of other vital factors, may become so dominant that the company loses vision of why it embarked on one such strategy in the first place.

A study on Ghana by Mathisen and Buchs (2005) used the Panzar–Rosse framework in determining the degree of competition in the Ghanaian banking sector. In their study, two reduced-form revenue equations are estimated; one for total (including interest) revenue scaled using total assets and the other for unscaled total (including interest) revenue. The explanatory variables used for this study are the three dimension alvector of factor prices; namely the ratio of personnel expenses over total loans and deposits, the ratio of interest expense over total deposits, and the ratio of other operating and administrative expenses over fixed assets. Basheer Abbas Al-alak, Saeed, Tarabieh (2011) examines the relationship between customer orientation, innovation differentiation, market differentiation and organizational performance in the banking industry in Jordan. The findings show that customer orientation contributes positively to organizational performance by providing innovation differentiation and market differentiation. Another finding of this study is that the effect of innovation differentiation on organizational performance is greater than market differentiation. In addition, doing both innovation differentiation and market differentiation simultaneously achieves greater competitive advantage that leads to best results in organizational performance. Diris, Iyiola & Ibidunni, (2013) carried out a study on product differentiation as a tool of competitive advantage and optimal organizational performance focusing on Unilever Nigeria plc). The result of the Regression analysis indicated that product differentiation as a tool of competitive advantage has a positive and significant influence on organizational performance of manufacturing companies in Nigeria. Seem (2011) investigated the extent to which banks achieve sustainable competitive advantage through product differentiation focusing on credit cards Issuers and found that banks need to recognize visa and master credit cards and identify its appropriate market for processing payments methods as a product differentiation to achieve sustainable competitive advantage.

A study in Kenya by Johnpeter Njoroge kireru, Dr. Kepha ombui and Dr. Jane omwenga, 2016 emphasize the need for engage in product development and designing. The study seek to fill the existing knowledge gap by determining influence of product differentiation strategies in achieving competitive advantage in Equity Bank Limited. The purpose of the study was to define influence of product differentiation strategies for achieving competitive advantage in commercial banks in Kenya. The study adopted a descriptive survey research design. Numbers of financial products are already designed by the commercial banks to fit different targeted customers in Kenya as well as regional market. The study findings expose that product differentiation strategies are the most dominant strategies among generic strategies adopted by commercial banks. And the study recommend that Banks should improve use of ATMs, consulting & training, POS payments, loan, agent banking and fund transfer services, Voluntary savings and also credit card services with lower the cost of transaction. However, little has been done on bank performance especially on Product Differentiation Strategy on business Performance in Ethiopia. So, the academic aim of this study was filing the knowledge gap on the topic Product Differentiation Strategy on business Performance of commercial banks in Ethiopia.

2.3.1 Organizational performance

A company applies positioning strategy when they intentionally decide to expand their business into different market segments than they already in. Of course, it’s preferable when a company produces a unique product or service that is universally desired by all market segments regardless of price or location, so the company doesn’t have to be concerned much about strategic positioning (Peteraf, 2013). The term ‘strategic positioning’ has gained a much broader definition that includes other customer wants, needs and desires (Hill, 2014). As stated by Barney (2015), strategic positioning requires a more complex business operation, managing this complexity increases and requires more sophisticated management strategies, tools and information. If it goes wrong, one product arrangements can cannibalize another in the market and launching a new product may not directly marginally enhance the return on investment and business return on equity because it siphon off customers from other products by the same firm.

Changes in the business environment motivate firms to seek change. Through adaptation of innovation, firms intend to react to these changes either by lunching new products differentiation strategy or by rising operational efficiency that is leadership strategy, in both cases organizations are seeking to enhance their performance. For instance, Vazaquez (1995) explores support for the relationship between a superior firm performance of firm and rate of firm's innovation and new product innovativeness. In another instance, Ferrier & Lyon (2002) proposed a positive relationship between product market innovation and firms' business performance. They found out there is a positive, significant relationship between product market innovation and market share attained.

Innovation plays a crucial role in business performance (Prahalad and Hamel, 1991, D'Aveni, 1994, Eisenhardt and Brown, 1995). They argue that be the first to a market combined with continuous product innovation is the key to survival in a rough business environment. This is probably why, nowadays, the competitive environment is defined by a very dynamic pace of change. According to Beer 1987, firms tend to enhance value to their products and services through differentiating products and services at same time lowering costs composite with more competitive efforts that helps to develop relationship between the diverse activities and also functions that contribute to the innovation, creation and firms of delivery products and services in order to be successful in the business.

2.3.2 Service differentiation and organizational performance

The prime retailers seek to differentiate their selves against competitors on customer services. There are four types of competitive strategies which are product, amount of promotion, promotion effectiveness and customer service competitive strategies (Harris and Ogbonna, 2012). As well as, Banks like any other business organization operate in a competitive environment and thus endeavour to deliver the supreme value to customers through such ways as higher quality, unique product features or complementary harmonies services.

A company applies positioning strategy when they intentionally decide to expand their business into different market segments than they already in. Of course, it's preferable when a company produces a unique product or service that is universally desired by all market segments regardless of price or location, so the company doesn't have to be concerned much about strategic positioning (Peteraf, 2013). The term 'strategic positioning' has gained a much broader definition that includes other customer wants, needs and desires (Hill, 2014). Among of most banks, could provide a wide range of differentiated products. Bath of different products has many small and sometimes large differences. Product differentiation is often applied in many business firms where customers often appreciate the ability to select from a wide variety of product offerings in order to be able to choose that particular product that best suits their interest (Kelley and Ellis, 2014).

Scholes and Johnson (2002) suggest that differentiation strategy desire to offer products or services which is unique or different from firms' competitors in terms of dimensions which are buyers valued the most. The aim is to gain high market share than competitors in market by delivering better products or service at the premium or same price.Any business organization performance is affected by the strategies that the organization chose (Mutuku, 2005). The idea of Performance is multi - dimensional nature that includes elements as for instance: sales, productivity and income (economic performance), staffs or employees and customer satisfaction (social performance), abide by the laws and law-like guidance (legal performance) or adoption of conduct norms based ethical considerations (social performance) Hernant, 2009.On the basis of these findings, it is believed that differentiation strategy is important to business Performance of Commercial banks.

2.3.3 Service innovation and organizational performance

Changes in the business environment motivate firms to seek change. Through adaptation of innovation, firms intend to react to these changes either by lunching new products differentiation strategy or by rising operational efficiency that is cost leadership strategy, in both cases organizations are seeking to enhance their performance. For instance, Vazaquez (1995) explores support for the relationship between a superior firm performance of firm and rate of firm's innovation and new product innovativeness. In another instance, Ferrier & Lyon (2002) proposed a positive relationship between product market innovation and firms' business performance. They found out there is a positive, significant relationship between product market innovation and market share attained.

Innovation plays a crucial role in business performance (Prahalad and Hamel, 1991, D'Aveni, 1994, Eisenhardt and Brown, 1995). They argue that be the first to a market combined with continuous product innovation is the key to survival in a rough business environment. This is probably why, nowadays, the competitive environment is defined by a very dynamic pace of change. According to Astebro and Michela, 2011, Innovation of any given type product or process, radical or incremental may be undertaken in very different ways with implications for the quality of innovation outputs, the uncertainty of the activity, and the potential for organizational learning and strategy re- formulation. This suggests the possibility that survival and exit may be contingent not only on the type of innovation which firms are undertaking but also on how companies are undertaking that innovation, the nature of firms' innovation strategies (Astebro and Michela, 2011).

According to Beer 1987, firms tend to enhance value to their products and services through differentiating products and services at same time lowering costs composite with more competitive efforts that helps to develop relationship between the diverse activities and also functions that contribute to the innovation, creation and firms of delivery products and services in order to be successful in the business.

2.3.4 Firm Size and Organizational Performance

Salim (2012) focused on the relationship between firm size and financial performance while focusing on the banking sector. All the commercial banks in the sector were considered. The measures of size included deposits, loans, assets as well as the number of branches while the measure of performance was return on assets (ROA). The relationship between firm size and performance of companies has been around for a long time as histories can attests.

2.3.5 Organizational Performance

Van de Ven (2016) stated that performance is the ultimate touchstone in the assessment of organizations and it is a complex construct that indicate the factors used by decision makers to assess the operation of an organization. He suggested three categories of performance, productivity, employee morale, and effectiveness. He further specified that the performance levels achieved by an organization constitute an input of information to its managers, which is likely to stimulate them to make adjustments in policies and modes of operation. In other words, performance is not merely a dependent end product otherwise it is a dynamic variable. Schellenberg and Ford (2012) in their review of performance measurement distinguish three perspectives that permeate organizational performance literature. The first perspective is the goal approach, which assumes that organizations desire ultimate and identifiable target. The second perspective is the systems resource approach, which emphasizes the relationship between the organization and its own environment. Performance is determined in terms of the ability of firm to secure limited and valued resources. The third perspective is the process procedure and performance is described in terms of the manner of the organization's participants.

Norton and Kaplan (2013) addressed performance measurement on the "Balance Scorecard" which is the most popular among managers. The balanced scorecard advances organizations managers with four different perspectives on performance financial, internal analytical, customer focused and innovative. Financial perspectives identify the major financial drivers in creating shareholder wealth and profitability.

(Slater et al., 2011) A common analytical approach is to decompose return on equity a common description of return on capital, into its component ratios.

2.4 Conceptual Framework and Hypothesis of the Study

A conceptual framework is a tool researchers use to guide their inquiry; it is a set of ideas used to structure the research, a sort of a map (Kothari, 2013). The comprehensive differentiation strategy contains building a market position which is perceived as being unique throughout industry furthermore making it sustainable over the long period. And also differentiation could be based on brand image division. According to Robinson and Pearce, 2003 differentiation strategies are depend on offering something that is different and unique to customers, which makes the company's strategic positioning, product or service unique from its competitors. A product with higher quality creates Superior value it can be technically superior in some way or comes up with superior service. Thomas and Hernant (2007), consumers are less likely to search for other firms alternative products once they are already satisfied. The study has been guided by the following conceptual framework.

Porter (2004) suggested four competitive strategies that are differentiation, cost leadership, focus(cost focus and differentiation focus) that could be adopted in order to gain sustainable competitive advantage by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

The motive and rationale behind the relation between process performance (effective and efficient) and financial success of the product is dual (Brown & Eisenhardt, 1995).A productive process meant lower costs which means lower prices then, in turn it should drives to greatest product success. On other hand, a faster process generates strategic flexibility and ultimate minimum time to product launch, both may lead to financial success of organization.

Scholars agree that the function which are intangibles strategically in contributing to value creation thereby supporting the firms' competitiveness and market performance most of all generate future economic profits. (Lev, 2001: Volkov & Garanina. 2007). Service characterized as untouchable, unseen, difficult to measure and takes time to build. It also includes trade names, copyright, trademarks, franchise licenses, permit, and goodwill. Satt and Tamek (2017) report that in some economies, intangibles generate higher proportion of returns than the tangibles resources and afford long term advantages to the organization. Consequently, growth in service delivery effectiveness is likely to result primarily from continuous improvement on the status affairs.

The banks' mix and product offerings of many banks are very similar in an environment where there is an increasing need for banks to compete both amongst themselves to market them effectively (Mbaabu, 2007). Banks are increasingly using marketing aspect such as promotional activities to differentiate themselves from their competitors through image and/or brand communications in order to boost to create product awareness. This is occurring in a progressively more competitive financial environment characterized by overcapacity and declining customer visits (LeHew & Fairhurst, 2000). The delivery system in commercial banks is a mix of human resources, locations, and equipment (Smith, 2006).

Service differentiation may be based on the product itself, the delivery system, and a wide range of other factors. With this differentiation aspect, firms provide additional values to customers who will reward them with a premium price (Worthington & Edwards, 2000). The performance of banks is critical in being able to reach its target clientele and cover administrative and other costs. Differentiation strategy generates more sustainable competitive advantage with the unique products and services offered into the market and also duplication is very difficult and costly (Carter and Ruefli, 2006; Grant, 1991). According to Helms and Allen (2006), differentiation enhances firm stablish customer loyalty by providing unique products and services thus assist them to perform more than competitors.

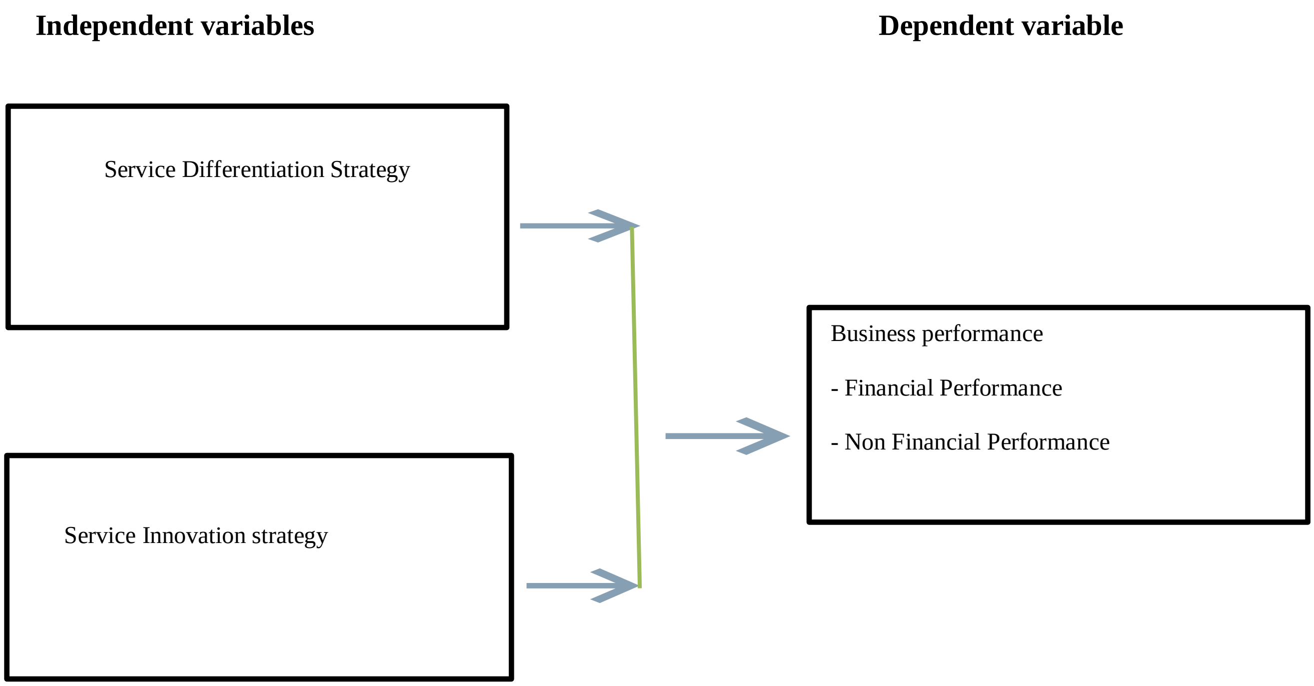
H1: service differentiation strategy has positive and significant business performances among commercial banks.

Mature process technologies and stable product designs reduce the possibilities of growth through innovation or integration, making improvement an important source of performance growth (Hayes et al., 2005). According to Beer 1987, firms tend to enhance value to their products and services through differentiating products and services at same time lowering costs composite with more competitive efforts that helps to develop relationship between the diverse activities and also functions that contribute to the innovation, creation and firms of delivery products and services. Scholes and Johnson (2002) suggest that differentiation strategy desire to offer products or services which is unique or different from firms' competitors in terms of dimensions which are buyers valued the most. The aim is to gain high market share than competitors in market by delivering better products or service at the premium or same price.

Developments in technology and information systems have enabled banks to access target markets (Kuzilwa, 2005). Automated teller machines installations (ATM), electronic funds transfer (FT) and credit cards, the human skills must be developed to gain every possible benefit to ensure employees in banks deliver out of technology and to forecast trends in technology so that new opportunities are identified early (Grant, 2010). Every business process whether stand-alone or aligned with other processes will yield some value, particularly more when aligned (Kemppainen and Vepsalainen, 2003). So the process alignment is designed to derive a quantified benefit to meet and outperform competition. Process differentiation happens by understanding and enabling how the business interacts with different internal and external constituents and customers, and where and how those intersections create or impede value. Most of change create process initiatives are induced by work-flow, technology upgrades, performance (continuous) improvements and changes in business or revenue model that influence business activities (Pearce & Robinson, 2000). Banking service products, such as banks credit cards, being intangible and experiential in nature were different to evaluate prior to purchase and consumption. Michael Porter (1995, 2005, 2008) propose that firms gain competitive advantage through new technological innovations and new process and then the technologies influence on cutting costs and differentiation element of competitive advantage therefore creating enhanced competitiveness for the firm.

H2: Service innovation strategy has positive and significant business performances among commercial banks.

Figure 2.1: Conceptual Framework



Hypothesis of the Study

S/No	Hypothesis
1	**H1**: Service differentiation strategy has positive and significant business performances among commercial banks.
2	**H2**: Service innovation strategy has positive and significant business performances among commercial banks.

Chapter Three

Research Methodology

This chapter discuss the theoretical point of view of the study and explains the selection of the relevant to methodology that have been implemented in order to execute the study and realize its objectives. It includes research design, target population, data collection and data analysis, issues of reliability and validity and also the ethical concerns to carrying out this research.

3.1 Research Method

To analyse the effect of the sources of competitive advantage of banks on performance among commercial banks, the research methodology which study have been used is quantitative type. Researchers have been conducting quantitative research methods for decades, now days it become more leads as a form of examination. Quantitative research methodology support studies in the way that researchers combine quantitative techniques, all research findings, and draw conclusion from the quantitative element. As Kumar (2011) says there are more advanced quantitative options of study research designs than within qualitative research.

3.2 Research Design

This study has been a cross-sectional survey. The Cross-sectional design more focused on a subset of the general population at a specific pared of time. In other word, this design uses a sample of convenience (convenience sampling techniques) from its target group and foundation its aggregate findings on the views of those chosen targeted and therefore allow for generalizations. In other hand, exploratory researches emphasize the tracing of insights and ideas in order to the firm to launch a new product and service, the study has been applying both descriptive and explanatory research designs. In this case the method has been useful in identifying practices in Commercial banking industry in Addis Ababa.

According to Mugenda, (2003) descriptive research design focus on finding out about who, how, where and when of a phenomenon so that use to build a profile. Because of it has the ability to build a profile this search design is more preferable. In order to answer the problem statement and meet the research objectives, the study contains a blended or mixed focus between descriptive and explanatory research.

3.3 Population and Sampling

3.3.1 Population

Population is all about an entire group of individuals, objects or events having a common observable characteristic. According to Mugenda, (2003) Population is the combination of all that conforms to a given specification. The population for this study included four Commercial banks in Addis Ababa, Ethiopia. There are Bank of Abyssinia S.C, Awash Bank S.C, Dashen Bank S.C and commercial bank of Ethiopia. They are sample of the top commercial banks is selected using the value of their total assets in country.

3.3.2 Sampling Technique

This study has employed convenience sampling techniques which are type of non-probability sampling method. This sampling technique draw a sample from the specific targeted population, the researcher prefer to choose this technique because of the expected large number of sample unit and time and also cost constraint.

3.3.3 Sample Size

On this study researcher used convenience non-probability sampling method from the research target population which are employees of selected banks. Accordingly, from the target population the researcher used a sample size discovered or observed by the financial resource, insight, experience or judgment of the researcher. In addition to these, the researcher should consider availability of fund and time used by previous similar studies and also own estimation to determine the research sample size. The sample has been selected from of listed four commercial banks, taking 109 participants from each bank using the below stated formula:

$N = Z^2 * p(1 – p)] / e^2$

Where N = required sample size

Z = is a measure of degree of confidence at 0.07

P = standard of deviation (conservative estimate of 0.5)

e = margin of error (±5%)

3.4 Data Collection

3.4.1 Source of Data

This study used both data sources which are primary and secondary sources of data collection. Secondary data is data that already exists, that researchers have collected for past research or studies. In other hand primary data are develop by researchers for the intention of using it particularly in their investigation (Iacobucci & Churchill, 2005).

3.4.2 Data Collection Instrument

The study used both primary and secondary data. Primary data have been collected through a questionnaire which was with both open ended and close ended questions. The questionnaire with closed ended questions facilitates more structured responses to provided actual recommendations and the open ended questions gives additional supportive information to the one that has been obtained from the closed ended questions.

Procedure of Data collection specifies the details of the undertaking process; it focuses on the data obtained and its sources. According to Kabir, (2016) a questionnaire is an instrument of research which contain of a series of questions for the purpose of obtaining needed information from respondents. In order to minimizing errors and avoiding misrepresentation, the questionnaire is designed carefully and [1]also it has been pre-tested on a few members of the targeted population.

3.6 Validity and Reliability

According to Gronhaug & Ghauri, (2005) validity explains how well the collected data covers the actual area of investigation. As Field, (2005) said Validity generally means “measure what is intended to be measured”, determine whether the participant or respondents understands the questions asked in the questionnaire. Validity is ensured via the use of content validity. The researcher adopted questionnaires which are tested and used by extant studies in order to assure content validity.

And Reliability associated to the consistency between aggregate measurements of variables Hair et al. (2010). A common form of reliability is internal consistency which measured by the scale correlation among consisted variables Hair et al., (2010). This study applied common method of Cronbach’s alpha, which is facilitating the estimation of the internal consistency of the whole instrument. In addition to this for an exploratory study it is preferred that reliability should be equal to or above 0.60 (Straub et al., 2004).

3.7 Pilot Study

According to Cooper and Schindler (2008), a pilot test is conducted to detect weaknesses in instrumentation and design to provide procured data for selection of a probability sample. A pilot study is conducted when a questionnaire is given to a few people with an intention of pre-testing the questions which are found quaternary. In this study a pilot study was undertaken on eight employees of the four selected commercial banks to pre-test the data collection instrument for completeness, accuracy and relevancy of the study. The pilot study also helps the researcher with the administration of the questionnaires therefore improving the procedures and instruments. The results of this particular pilot study were not included in those of the final study.

3.7.1 Validity of instruments

Patton (2013) define validity as the best available approximation to the falsity or truth of a given proposition, inference or conclusion. According to Gall and Borg (2012) validity is the level by which the sample of test items represents the content the test is designed to evaluate. Content validity which was applied in this study is a measure of the degree to which data was gathered using a particular instrument to represents a specific content of a particular concept (Gall & Borg, 2012). This facilitated the necessary modification and revision of the research instrument consequently enhancing validity.

3.7.2 Reliability

According to Cronbach, 2011, Reliability is the consistency of a set of measurement items while validity demonstrates that the instrument is testing what it should. Reliability is the consistency of your measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. In other word, it is the probability of our measurement. It is important to keep in mind that reliability is not measured but it is estimated. However, reliability doesn't, imply validity because while a scale could be measuring something consistently, it may not necessarily be what it is presumed to be measuring. In this study the researcher used the most common internal consistency measure which is known as Cronbach's alpha (α). (Cronbach, 2013) It indicates the level to which a set of test items can be treated as measuring a single latent variable, the recommended value of Cronbach's alpha 0.7 was used as a limit of reliabilities.

3.8 Data Analysis

After data collection, a thorough check have been done to the questionnaires before coding and feeding the data in SPSS software (Statistical Package for Social Sciences) for analysis. Quantitative data was analysed by the cross sectional survey statistics i.e. standard deviations, means, Percentages and frequencies. The information which was presented using frequency tables and in prose-form In addition, in order to demonstrate the effect of the sources of competitive advantage on business performance in the case of commercial banks in Addis Ababa, Ethiopia the researcher have been conducting a regression analysis.

3.9 Ethical Consideration

The topic of confidentiality and obscurity (anonymity) is directly connected with the fidelity, rights of beneficence and dignity (Fouka and Mantzorou, 2011). In this study the researcher take extreme caring measures to make sure that participate who would participate in this research no respondent's was mentioned their names or identity in any way and that acquiescence was given. While conducting this study, no respondent were forced to answer any questionnaires against their will. In addition to that, the respondents were informed beforehand about the nature of the study and also the participant has been communicated of the aim and purpose of the study.

CHAPTER FOUR

Data Analysis, Presentation and Interpretation

This chapter illustrates the processes, procedures and techniques used to present, analyse and interpret the data gathered using the questionnaires. The chapter demonstrates quantitative data analysis, cross tabulation tables, means scores and percentages on the effect of the sources of competitive advantage on business Performance, in the case of Commercial banks in Addis Ababa, Ethiopia.

4.1 Pilot Test Results

4.1.1 Validity Analysis

To determine the validity of the data collection, the research instruments were given to total eight employees of the selected four banks. The participant employees were expected to mark if the item in the questionnaires addresses the effects of competitive strategies and organizational performance of commercial banks in Addis Ababa. The responses given by the participants were checked versus the study objectives and scald using a scale of 5(Strongly agree) up to 1(Strongly disagree). The coefficient of the data collected from the pilot study was computed with assistance of SPSS (Statistical Package for Social Sciences). (Joppe, 2000) A context of validity coefficient index of above 0.75 was obtained and this implied that the questionnaires were valid research instrument for the study.

4.1.2 Reliability Analysis

In order to measure the content reliability of the data collection instruments an internal consistency technique Cronbach's alpha was computed using SPSS. The pilot study involved questionnaires from eight employees in the four selected banks. The data gathered from these respondents was analysed using SPSS Cronbach's alpha. Cronbach's alpha is a coefficient of reliability that provides an unbiased estimate of data generalizability (Zinbarg, 2005).

Table 4.2 show that the collected data was reliable since data collected from all independent variables had a Cronbach’s alpha values of between 0.818 to 0.864 and this was above 0.75 satisfying that an alpha coefficient higher than 0.75 indicates that the gathered data had relatively high internal consistency Zinbarg (2005) and could be generalized to reflect opinions of all respondents in the target population on the effects sources of competitive strategies and performance of commercial banks in Addis Ababa.

Table 4.1 pilot test Reliability Results

Constructs	**Cronbach's Alpha**	**Comments**
Service differentiation Strategy	0.864	Accepted
Service innovation Strategy	0.818	Accepted

4.2 Response Rate

Primary data was collected employing a questionnaires, four hundred thirty six (436) questionnaires were issued to selected employees of bank were (336) questionnaires were returned representing a 77% response rate. One hundred (100) questionnaires were not returned representing a 23 % non-response rate. The total response rate is considered adequate as of the recommendations given by Rooney, Pollack, Wilson and Hager (2003) recommend 50%. Based on these assertions, the response rate for this study was acceptable.

The table 4.2 presents that the response rate was 77% of the total sample size and the non-response was 23%. The large recorded response rate can be attributed to the data collection procedures, where the researcher pre-informed the selected participant's played a self-administered type questionnaire which is respondents completed and picked shortly afterwards and cared out follow up calls to clarify questions as well as motivated the respondents to fill the questionnaire.

Table 4.2 Response Rate

Response rate	**Frequency**	**Percentage**
Returned Questionnaires	336	77 %
Not Returned Questionnaires	100	23 %
Total	436	100 %

Source: Field data, (2022)

4.3 Reliability Analysis

To assess the reliability of the data collection instrument an internal consistency technique which is Cronbach's alpha (developed by Lee Cronbach in 1951) was measured using SPSS. According to Zinbarg, (2005) Cronbach's alpha is a coefficient of reliability that gives an acceptable estimate of data quality of being generalizable. In general, a score more than 0.7 is acceptable; however some authors suggest that higher values of Cronbach's alpha 0.90 up to 0.95.

Table 4.3 clearly shows that the obtained data was reliable since data obtained from all independent variables have Cronbach’s alpha values of between 0.701 to 0.918 and this was gathered data had relatively high internal consistency and perhaps generalized to reflect opinions of all respondents in the target population on the effect of the sources of competitive advantage on business performance of commercial banks in Addis Ababa.

Table 4.3 Reliability Results

Variables	**Cronbach's Alpha**	**N of Items**
Service differentiation	0.708	7
Service innovation	0.903	4
Performance	0.918	7

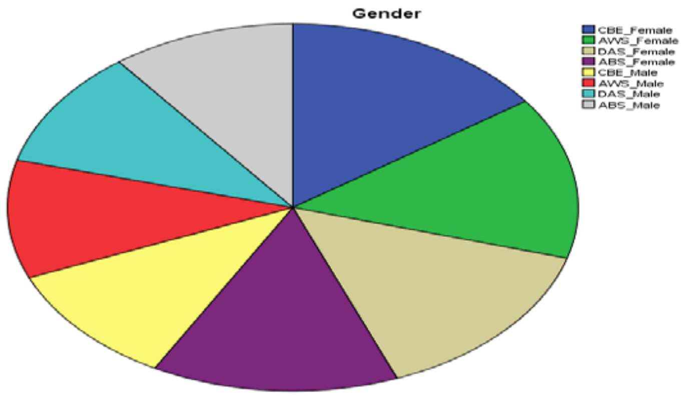
4.4 Demographic Analysis

With the purpose of achieving the main purpose of this study, the researcher found it beneficial to find out the demographic information of the participants. The demographic details of the respondents involved Age, Gender, Educational states and work experience. Demographic information state that data regarding research respondents and is appropriate for the determination of whether the individuals in a specific study are a representative sample of the targeted population and experiment appropriateness of the respondent in answering the queries for generalization purposes.

4.4.1 Gender of the respondent

The study found it crucial to determine appropriates’ gender with the purpose to discover whether there was gender group in the attitude indicated by the respondents. The findings of the study are presented in Figure 4.1.

Figure 4.1 Gender of the respondent



Source: Field data, (2022)

According to the analysis it was indicated that majority of the respondents were female which represented 58% whereas 42% were male. As a result it can be deduced that female are more than half the players among the respondents. However given that the difference was very small it can be implied that the sample is more or less similar in terms of its composition of both genders.

Table 4.4 Gender Rate

Gender

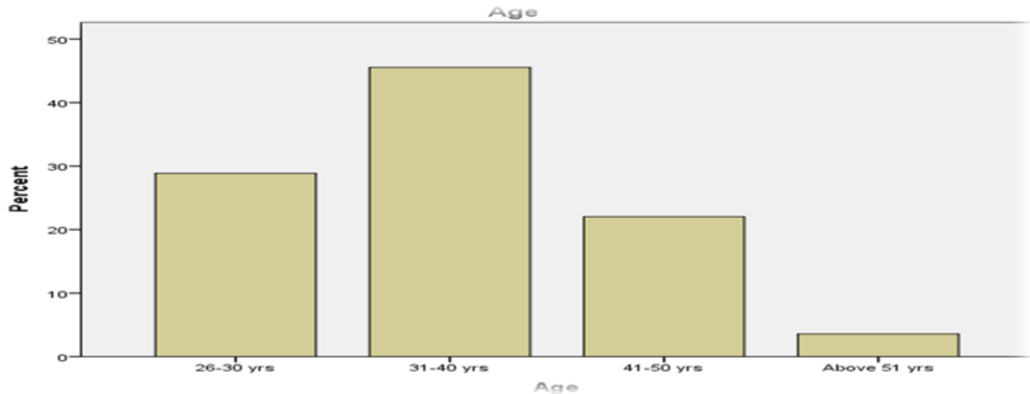
		Frequency	Valid Percent
Valid	CBE Female	51	15.2
	AWS Female	48	14.3
	DAS Female	49	14.6
	ABS Female	47	14.0
	CBE Male	36	10.7
	AWS Male	35	10.4
	DAS Male	35	10.4
	ABS Male	35	10.4
	Total	336	100.0

Source: - Field data, (2022)

4.4.2 Age of the respondent

The respondents were requested to indicate their age as shown in figure 4.2 below.

Figure 4.2: Respondents Distribution by Age



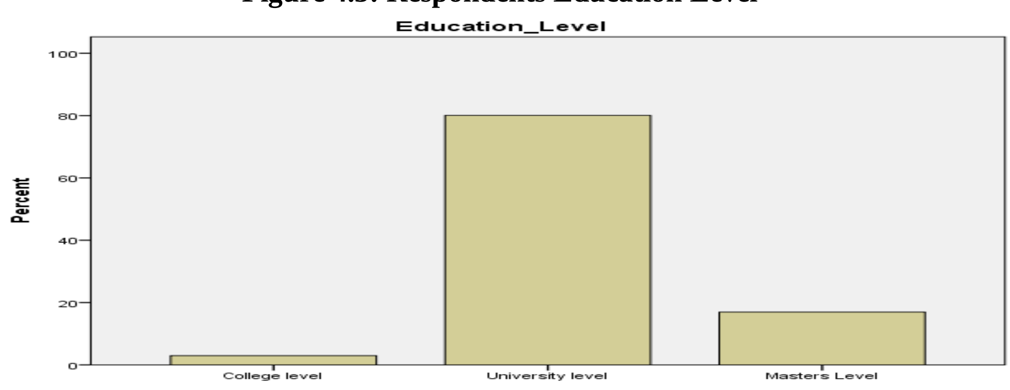
Source: - Field data, (2022)

The respondents were requested to indicate their age so the study findings revealed that majority 45.5% indicated that their age was between 31 and 40 years. An analysis result also shows that 29% of the respondents were between 26 and 30 years of age. The findings further reported that 22% were between 41 and 50 years of age while 3.5% were above 51 years of age. The finding therefore implies that the respondents were matured enough to provide valuable responses that use to identify the effect of the sources of competitive advantage on business performance in Commercial banks in Addis Ababa. The findings of the study are displayed in figure 4.2 above.

4.4.3 Education level of the respondent

The study aimed to find out the participant level of education in order to ascertain whether professional and academic qualification affect the effect of the sources of competitive advantage on business performance in commercial banks in Addis Ababa. The findings of the study are illustrated in figure 4.3 below.

Figure 4.3: Respondents Education Level



Source: Field data, (2022)

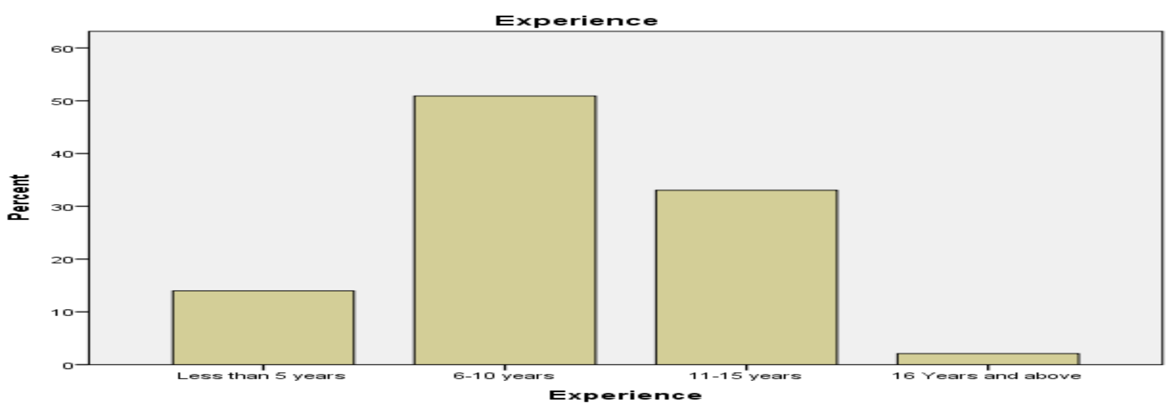
According to the findings of the study, majority 80% academicals status were university level meanwhile 3% of the respondents indicated that they had reach college level diplomas in their respective areas of specialization. This great number of respondents with university degree education could be attributing to the fact that the study targeted the officers, branch managers, business managers and customer service managers. The study further indicated that there were no secondary school certificate and PhD holders participated while (17%) had attained masters.

From the study results, majority of the participants had attained necessary academic qualification compatible with their job description.

4.4.4 Respondents Work Experience

The study found it very important to ascertain the respondents work experience in the banking sector in Addis Ababa so as to learn the relationship between years in service and performance of commercial banks in Addis Ababa. The findings of the study are demonstrated in figure 4.4.

Figure 4.4 Respondents Working experience



Source: Field data, (2022)

Basis of the result, majority of the respondents (51%) had 6-10 years of experience meanwhile 33% had between 11-15 years of working experience. 2% of the participants had an experience 16 years and above. It was also it apparent that 14% of the respondents had an experience not exceeding 5 years. According to findings as a result majority of the participants were experienced and for this reason they are very informative on topic that relate to impact of the sources of competitive advantage on business performance in Commercial banks in Addis Ababa.

4.5 Descriptive Findings

The study aims to establish the effect of the sources of competitive advantage on business performance of Commercial banks in Addis Ababa, Ethiopia. Particularly, the study more concerned with service differentiation and product innovation strategies.

4.5.1 Service differentiation Strategy and performance of commercial banks in Addis Ababa

The first objective of the study aimed to determine the extent to which respondents agree or disagree with statement as regard the effect of service differentiation strategy on business performance of commercial banks in Addis Ababa. This was measured in a Likert Scale of 1 to 5 Where: 1= Strongly Disagree, 2 = Disagree 3= Undecided, 4 = Agree, 5 = strongly agree. The results are presented in table 4.5.

Table 4.5: - Service differentiation strategy on the performance of commercial banks in Addis Ababa.

SECTION 1: Service Differentiation Strategy							
Statements	1	2	3	4	5	**Mean**	**Std. Deviation**
Our services are unique and nobody but our bank can offer them.	47	37	44	94	114	3.57	1.410
In comparison with our competitors the quality of our services are much better.	13	17	24	141	141	4.13	1.014
In comparison with our competitors we are faster in satisfying our customers' needs / customer complaints.	27	27	40	128	114	3.82	1.214
In comparison with our competitors we are more flexible in satisfying our customers' needs.	30	30	81	101	94	3.59	1.233
We measure customer satisfaction systematically and frequently.	20	27	30	128	131	3.96	1.157
Our strategy for competitive advantage is based on our understanding of customer's needs.	27	37	74	104	94	3.60	1.227
Our bank offers service-based advantages that are reliable, flexible and fast and affords great value for the customer.	40	37	34	104	121	3.68	1.370
Composite Mean and Standard deviation						**3.76**	**0.74**

The study sought to find out the level of agreement or disagreement with statements regarding the effect of differentiation strategy on the performance of commercial banks in Addis Ababa. From the findings respondents agreed to the statement that our services are unique and nobody but our bank can offer them. Where: 14% Strongly disagreed, 11% disagreed, 13.1 % undecided, 28% agreed and 33.9 % strongly agreed with a mean of 3.57 and standard deviation of 1.014; in comparison with our competitors the quality of our services are much better. Where: 3.9 % strongly disagreed, 5.1 % disagreed, 7.1% undecided, 42% agreed, 42% strongly agreed with a mean of 4.13 and standard deviation of 1.014; In comparison with our competitors we are faster in satisfying our customers' needs/ customer complaints. Where: 8% strongly disagreed, 8% disagreed, 11.9 % undecided, 38.1 % agreed, 33.9 % strongly agreed with a mean of 3.82 and standard deviation of 1.214; In comparison with our competitors we are more flexible in satisfying our customer's needs. Where: 8.9% strongly disagreed, 8.9% disagreed, 24.1 % were undecided, 30.1 % agreed and 28% strongly agreed with a mean of 3.59 and standard deviation of 1.233; We measure customer satisfaction systematically and frequently. Where: 6% strongly disagreed, 8% disagreed, 8.9% undecided, 38.1 % agreed, 39% strongly agreed with a mean of 3.96 and standard deviation of 1.157; Our strategy for competitive advantage is based on our understanding of customer' s needs. Where: 8% strongly disagreed, 11% disagreed, 22% were undecided, 31% agreed and 28% strongly agreed with a mean of 3.60 and standard deviation of 1.227; Our bank offers service-based advantages that are reliable, flexible and fast and affords great value for the customer. Where: 11.9% Strongly disagreed, 11% disagreed, 10.1 % undecided, 31% agreed and 36% strongly agreed with a mean of 3.68 and standard deviation of 1.370.

4.5.3 Service innovation Strategy and performance of commercial banks in Addis Ababa

The third objective of the study was to determine the extent to which respondents agree or disagree with statement regarding with impact of product innovation strategy on business performance of commercial banks in Addis Ababa.

Table 4.6: - Service innovation strategy impact on the performance of commercial banks in Addis Ababa

SECTION 2: Service Innovation strategy							
Statements	1	2	3	4	5	**Mean**	**Std. Deviation**
Our bank invests in service-related R&D.	27	30	17	124	138	3.94	1.242
Our bank invests in process-related R&D.	34	27	30	131	114	3.79	1.273
Our bank introduces new services into the market.	13	17	50	118	138	4.04	1.054
Our bank develops revolutionary innovations.	44	40	64	84	104	3.49	1.378
Composite Mean and Standard deviation						**3.81**	**1.09**

The study aimed to demand the extent of agreement or disagreement with statements regarding the impact of product innovation strategy on the business performance of commercial banks in Addis Ababa. From the findings participants agreed to the Our bank invests in service-related research and development; Where: 8% Strongly disagreed, 8.9% disagreed, 5.1 % undecided, 36.9 % agreed, 41% strongly agreed with a mean of 3.94 and standard deviation of 1.242; Our bank invests in process-related research and development; where: 10.1 % strongly disagreed, 8% disagreed, 8.9% undecided, 39% agreed, 33.9 % strongly agreed. With a mean of 3.79 and standard deviation of 1.242; our bank introduces new services into the market. Where: 3.9 % strongly disagreed, 5.1 % disagreed, 14.9 % were undecided, 35.1 % agreed, 41.1 % strongly agreed with a mean of 4.04 and standard deviation of 1.054; and finally our bank develops revolutionary innovations. Where: 13.1 % strongly disagreed, 11.9% disagreed, 19% were undecided, 25% agreed, and 31% strongly agreed with a mean of 3.49 and standard deviation of 1.378.

This study collects with literature review which discover that firms which do decided innovation in any given period therefor they must make decision about the kind of the innovation in which way they are going to invest: process, product or combination; incremental, radical or a both (Du et al., 2013).

4.5.4 Business performance of commercial banks in Addis Ababa

The study sought to determine the extent of agreement or disagreement with statements regarding the business performance of commercial banks in Addis Ababa. From the findings in table 4.7,

Table 4.7: Business Performance of the bank

SECTION 3: Financial Performance of the bank							
Statements	1	2	3	4	5	**Mean**	**Std. Deviation**
Our bank has high return on investment.	13	20	47	112	144	4.05	1.07
Our bank has high profit to sale ratio.	13	17	50	124	132	4.03	1.04
Our bank is achieving its financial objectives.	30	37	64	91	114	3.66	1.29
Our customers are satisfied.	40	50	30	104	112	3.59	1.38
Our customers receive value.	38	60	30	107	101	3.51	1.37
Our customers receive what they want.	57	47	40	101	91	3.36	1.44
My bank has the ability to absorb new customers**.**	34	37	60	91	114	3.70	1.31
Composite Mean and Standard deviation						**3.68**	**0.979**

From the findings participants agreed to our bank has high return on investment; where: 11% strongly disagreed, 8.9% disagreed, 11.9% were undecided, 37.2% agreed, 31% strongly agreed with a mean of 3.68 and standard deviation of 1.296. Where: 3.9% strongly disagreed, 6% disagreed, 14% were undecided, 33.3% agreed, 42.9% strongly agreed with a mean of 4.05 and standard deviation of 1.075; our bank has high profit to sale ratio. Where: 3.9% strongly disagreed, 5.1% disagreed, 14.9% were undecided, 36.9% agreed, 39.3% strongly agreed with a mean of 4.03 and standard deviation of 1.046; our bank is achieving its financial objectives. Where: 8.9% strongly disagreed, 11% disagreed, 19% were undecided, 27.1% agreed, and 33.9% strongly agreed with a mean of 3.66 and standard deviation of 1.290. These study findings were in agree with those of Schellenberg and Ford (2012) in their review of firm's performance measurement identified the three perspectives that provide organizational performance literature. From those three the first perspective is the goal approach, which assumes those firms pursue identifiable and ultimate goals. And then non - financial performance of the bank From the findings participants agreed to the our customers are satisfied; Where: 11.9% Strongly disagreed, 14.9% disagreed, 8.9% undecided, 31% agreed, 33.3% strongly agreed with a mean of 3.59 and standard deviation of 1.388; Our customers receive value; where: 11.3% strongly disagreed, 17.9% disagreed, 8.9% undecided, 31.8% agreed, 30.1% strongly agreed. With a mean of 3.51 and standard deviation of 1.376; Our customers receive what they want; where: 17% strongly disagreed, 14% disagreed, 11.9% were undecided, 30.1% agreed, 27.1% strongly agreed with a mean of 3.36 and standard deviation of 1.441; My bank has the ability to absorb new customers; where: 10.1% strongly disagreed, 11% disagreed, 17.9% were undecided, 27.1% agreed, and 33.9% strongly agreed with a mean of 3.64 and standard deviation of 1.320. According to MERITUM, (2002); Satt & Tamek (2017) all abstract, non-physical and non-financial factors owned by a firm that could help to produce future economic profits. From study finding here is the correlation test between the independent variables and the dependent variable.

Table 4.8: - Correlations Analysis Summary

Correlations

		Performance	Service differentiation	Service innovation
Performance	Pearson Correlation	1	.019	.501**
	Sig. (2-tailed)		.722	.000
	N	336	336	336
Service differentiation	Pearson Correlation	.019	1	.135*
	Sig. (2-tailed)	.722		.013
	N	336	336	336
Service innovation	Pearson Correlation	.501**	.135*	1
	Sig. (2-tailed)	.000	.013	
	N	336	336	336

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

4.6 Multiple Linear Regressions

Tests of assumptions for Multicollinearity, Outliers, normality, linearity, homoscedasticity, independence of residuals;

4.6.1 Multicollinearity

The variables (Service Differentiation, and Service Innovation) have shown significant relationship with each other which was not too high (see table 4.9). In addition the assumption of multicollinearity can also be assessed using SPSS as part of multiple regression procedure. In the collinearity statistics section, Tolerance and VIF values are given. Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula (1 – R squared for each variable. If this value is small (less than 0.10) it indicates that the multiple correlation which other variables is high, suggesting the possibility of multicollinearity. In the present study the tolerance value for each independent variable was not less than 0.10 therefore, this also suggests that the assumption of multicollinearity was not violated (see table 4.9). The other value given is the VIF (Variance inflation factor), which is just the inverse of the Tolerance vale. VIF values above 10 would indicate multicollinearity. Again in the present study the VIF value was less than 10 for all independent variables (see table 4.9). This also indict that the assumption of multicollinearity was not violated.

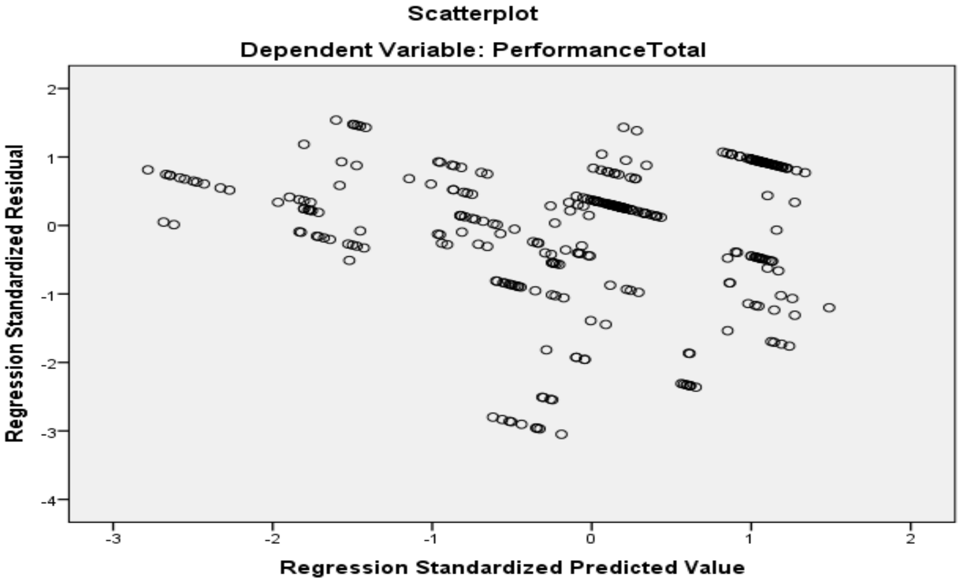
Table 4.9 Collinearity Statistics Test of Independent Variables

Variable	Collinearity Statistics	
	Tolerance	VIF
Service Differentiation	0.981	1.019
Service Innovation	0.964	1.037

4.6.2 Homoscedasticity

"Homogeneity of variance" assumption or homoscedasticity, it states that the variances of the same variable, selected from independent samples, will be equal. In regression analysis, this assumption states that the variances of the *Y*s, for each *X*, will be equal. The standard suggestion for examining the assumption of homoscedasticity in regression analysis is to plot the predicted *Y* values against the residual values. Heteroscedasticity is indicated when these values spread or fan out from left to right or right to left. The scatterplot shows that the points are concentrated around 0 which shows that no violation of homoscedasticity (see figure 4.5).

Figure 4.5:- Scatterplot of Performance of Banks



4.6.3 Outliers and independence of residuals

In the Scatterplot of the standardized residuals, the residuals were roughly rectangular with most of the scores concentrated in the centre, along the line 0. This also suggests no violation of the assumption of independence of residuals. Outliers can also be detected from the Scatter plot. From this Scatter plot we can see that there were no major outliers.

4.6.4 Normality

These assumptions can be checked by inspecting the normal probability plot (P-P) of the regression standardised residual and the scatterplot shown as part of the analysis. If points lie in a reasonably straight diagonal line from bottom left to top right in the Normal P-P plot, no major deviation from normality can be suggested. In the present study, we can easily inspect from the Normal P-P plot that points line somewhat in a reasonably straight diagonal line from bottom left to top right for the dependent variable, Performance of banks. This suggests that the assumption of normality was not violated. It also indicates that the majority of the scores of Performance of banks were concentrated around the mean score which further confirms that the assumption of normality was not violated.

Figure 4.6:- Histogram of Performance of Commercial Banks

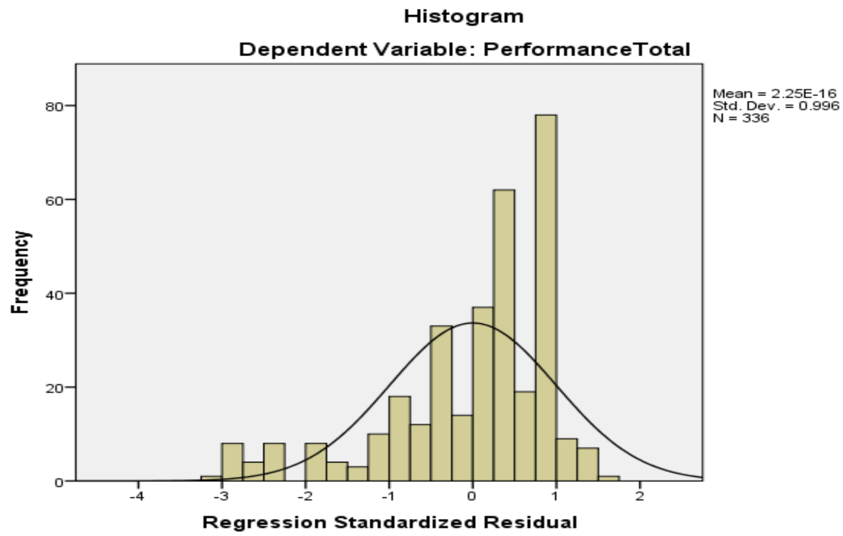


Table 4.10:- The Influence of Independent Variables on the Dependent Variable: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.503[a]	.253	.249	.84916

a. Predictors: (Constant), Service innovation, Service differentiation

As shown in table 4.10 the value of R square was 0.254. This value tells how much of the variance in the dependent variable Performance of banks is explained by the model (Service Innovation and Service Differentiation). In other words, multiplying R Square value with 100, the model explains 25.4% of the variance in the dependent variable (Performance of banks).

Table 4.11 Goodness of Fit – ANOVA Result – Regression Model

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	8180.680	3	2726.893	37.774	.000[b]
Residual	23967.272	332	72.191		
Total	32147.952	335			

a. Dependent Variable: Performance of banks

b. Predictors: (Constant), Service Innovation, Service Differentiation

The goodness of fit results of linear multiple regressions with Performance of banks as the dependent variable and variables (Service Innovation and Service Differentiation) as predictors is reported in table 4.11. The model reveals a statistically significant relationship between Performance of banks and predictor variables, F (3,332) = 37.77, $p < 0.001$. In other words the model was significant.

Table 4.12 Regression Coefficients of Predictor Variables in Predicting the Dependent Variable, Performance of Banks

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.192	.272		8.049	.000
	Service differentiation	-.065	.063	-.049	-1.029	.304
	Service innovation	.455	.043	.507	10.614	.000

a. Dependent Variable: Performance

In order to assess the effect/influence of predictor variables (Service Differentiation, and Service Innovation) on Performance of banks multiple linear regression analysis was computed. The table 4.12 shows that, among the predictor variables, only Service Innovation made a statistically significant prediction in predicting the dependent variable, Performance of banks.

In order to evaluate the contribution or influence of each independent variable to the dependent variable, one can see the Beta value. In the table 4.12 above, the Beta value for predictor variable, Service Innovation, was 0.512 which implies that this predictor variable made the only strong positive and statistically significant influence in explaining or predicting the dependent variable (Performance of banks) when the variance explained by all other variables in the model is controlled for. This implies that if we could increase Service Innovation by one standard deviation, the performance of banks scores would likely to increase by 0.512 standard deviation units. However, the remaining predictor variables (Service Differentiation) didn't make any statistically significant contribution/influence in determining the dependent variable, $p > 0.05$.

Chapter Five

Summary of Findings, Conclusions and Recommendation

This chapter contends a summary of the findings of this study discusses the study findings and gives the conclusion on the effect of the sources of competitive advantage and performance of commercial banks in Addis Ababa. It also outlines the recommendations regarding to performance of commercial bank in Addis Ababa.

5.1 Summary of the Findings

The prime motivation of this study was to examine the effect of the sources of competitive advantage and performance of commercial banks in Addis Ababa, so as to propose the best alternative source of competitive advantage from the three which were examined in this study. From the study results the study discovers sources of competitive advantage have effect on commercial banks performance in Addis Ababa. The study established that the major strategies that have effect on commercial bank performance strategy is service innovation strategy while service differentiation strategy do not have an effect on business performance in the context of the commercial banks studied according to the participants.

The study obtained a 77% response rate which is considered to be sufficient so as to enable the objective of the study to be achieved. Majority of the participants were female and most working experience of participants' leys between 5-10 years in banking sector. From the study findings respondents agreed to the statement that our bank invests in service-related research and development; that our bank invests in process-related research and development; that our bank introduces new services into the market; that our bank develops revolutionary innovations. According to the study findings, the service innovation strategy as an independent variable reported a statistically significant and shows stronger correlation between Commercial Banks Performance and service innovation strategy ($r = 0.501$, $p = 0.000$).

The study also unexpectedly exposed that a weak correlation between service differentiation strategy ($r = 0.019$, $p = 0.722$) as stated on study had an insignificant relationship with performance of commercial banks in Addis Ababa. Focus on the other had a correlation.

5.2 Conclusion

Based on the research findings the study concludes that the preceding empirical analyses provide insight in the association between source of competitive strategies and performance in commercial banks in Addis Ababa. It must be noted that sources of competitive strategies applied by commercial banks in Addis Ababa provided different extent of variation within the respondents with accordance with the sources of competitive strategy adopted.

In line with the summary of findings, the commercial banks in Addis Ababa advantageousness measures respond positively to the increase in competitive strategies that are driven by service innovation as opposed to and service differentiation frameworks. Commercial banks using a service innovation strategy realized statistically significant outstanding performance in comparison with those that followed service differentiation strategy. Giving consideration to the listed concept in relation to product innovation, banking product line extension, new product development, and agent banking, so the performance of commercial banks increase with enhancement of these angles. As a result, source competitive strategy and their relationship with business performance verify that competitive strategies are applicable in the commercial banking performance in Addis Ababa.

5.3 Recommendations

5.3.1 Service Differentiation Strategy

Intuitively the service differentiation strategy is recommended because of there are a plenty of substitute services in the banking sector however, this study found that service differentiation strategy have no statistically significant influence on performance. This signifies that commercial banks provide should products and services that differentiate them from other competitors in the market may not lead to better business performance. To guarantee banks success, commercial banks in Addis Ababa may not need to take to account service differentiating their products to customers. However, future studies should examine why there is no statistically significant relationship between business performance and service differentiation strategy.

5.3.2 Service Innovation strategy

On service innovation strategy the study conclude that innovations result to elevated levels of digitalization, cost efficiency enhancing the commercial bank to continuously deal with their large customer base of over a million general populations. And also in order to banks higher performance the study highly recommends that the commercial banks should make use of service innovation strategy among other competitors' strategies to expand their market share in terms of market positioning and customer satisfaction.

5.5 Limitations and future research Recommendation

This study has a certain limitations that should encourage future research on this matter. Further studies should be done on the results of this study so as to enrich the existence of knowledge on the product differentiation strategies. The researcher consider product differentiation strategy commercial banks in Addis Ababa, this is a single location study that limits the possibility of generalizing our findings to other contexts. Primarily, researcher suggests that replicating this study in throughout country. Secondly, the researcher recommends a study to be done on the effect of the product differentiation strategies implementation to performance and on the general operation challenges faced by the sector commercial banks in Ethiopia.

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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

I am a postgraduate student at Addis Ababa University School of Commerce pursuing a Degree of Master of Arts in Marketing Management.

According to the pre-condition course work, I am currently conducting a research project on The effect of the sources of competitive advantage on business Performance: - in the case of Commercial banks in Addis Ababa, Ethiopia

I would be most grateful for you to participate in this study by supporting in filling the questionnaires and assisting with any other relevant information to the topic. The information collected will be processed with extreme confidentiality and for academic use only. There are no right or wrong answers I am interested in your personal opinion.

Thank you in advance.

Yours faithfully,

Mahlet Shibru Asfaw

Mobile Number: +251910891238

Part I:- Background information

Instructions (tick where appropriate)

1. Please indicate what is your gender?

☐ Male

☐Female

2. Please tick what is your age bracket below:

☐ 26-30 yrs

☐31-40 yrs

☐41-50 yrs

☐Above 51 yrs.

3. Please tick your education level

☐Secondary level

☐College level

☐University level

☐ Masters Level

☐PhD Level

☐other specify ____________________________

4. Please indicate your working experience in banking sector

☐Less than 5 years

☐6-10 years

☐11-15 years

☐16 Years and above

Part II:- Measured on a scale of 1-5 (where 1- strongly disagree and 5 - strongly agree)

To what extent do you agree with the following statements regarding product positioning strategy on performance of commercial banks in Addis Ababa? Use a scale of Likert Scale of 1-5 Where: 1= Strongly Disagree, 2 = Disagree 3= Undecided, 4 = Agree, 5 = strongly agree

SECTION 1: Service Differentiation Strategy					
Statements	1	2	3	4	5
Our services are unique and nobody but our bank can offer them.					
In comparison with our competitors the quality of our services are much better.					
In comparison with our competitors we are faster in satisfying our customers' needs / customer complaints.					
In comparison with our competitors we are more flexible in satisfying our customers' needs.					
We measure customer satisfaction systematically and frequently.					
Our strategy for competitive advantage is based on our understanding of customer's needs					
Our bank offers service-based advantages that are reliable, flexible and fast and affords great value for the customer.					
SECTION 2: Service Innovation strategy					
Statements	1	2	3	4	5
Our bank invests in service-related R&D.					
Our bank invests in process-related R&D.					
Our bank introduces new services into the market.					
Our bank develops revolutionary innovations.					
SECTION 3: Business Performance of the bank					
Statements	1	2	3	4	5

Our bank has high return on investment.					
Our bank has high profit to sale ratio.					
Our bank is achieving its financial objectives.					
Our customers are satisfied.					
Our customers receive value.					
Our customers receive what they want.					
My bank has the ability to absorb new customers.					

THANK YOU!