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Effects of Generic Competitive Strategies on Profitability: The Case Study of Commercial Bank of Ethiopia

A Thesis Submitted to School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirement for the Degree of Masters of Arts in Marketing Management

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Statement of Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for degree in any other university and that all sources of materials used for the thesis have been appropriately acknowledged.

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Abstract

Porter's generic competitive strategies have been hypothesized by many researchers to have an influence on performance, profitability and customer satisfaction. Amongst stiff competition, it is important that appropriate strategies are used to ensure this aim is achieved. This study was set to determine the effect of Porter's Generic Competitive Strategies (cost leadership, Differentiation and Focused strategies) on Profitability of Commercial Bank of Ethiopia. This study has applied explanatory research design and employed purposive sampling technique in the selection of the respondents because the scope of this study was limited to marketing department of CBE at head office. Thus, the sampling size and the population of the study were all one hundred twenty one (121) marketing department staffs working at head office. The study used a questionnaire to gather primary data from the respondents and review of published documents collect secondary data. Data collected was analyzed for descriptive statistics and inferential statistics (correlation and regression) by using Statistical Package for Social Sciences (SPSS) computer software version 20.

The findings indicated that there was a significant correlation between cost leadership strategy and profitability which was measured by foreign exchange rate, operating expense and non-performing loan. There was also a significant correlation between differentiation strategy and profitability which was measured by brand position and quality of products/services. Regarding to technological advancement, convenient ATM service and Secured banking system had a significant positive effect on profitability. However, Automated Financial Services and Card-linked banking services had no a significant effect on profitability of the bank. It can also be indicated that there was a significant effect of focus strategy and profitability which was measured by IFB and e-banking as focus strategy variables.

The study recommended that CBE should minimize the rate of non- performing loans and the bank should be advanced in banking technology such as enhancing digital banking services. It is also recommended that similar studies be carried out in private commercial banks in Ethiopia for comparison purposes and similar research studies should also be conducted in other economic sectors.

Key words: Cost leadership, Differentiation, Strategies, Focus, and Profitability

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Acronyms

CBE	Commercial Bank of Ethiopia
SPSS	Statistical Package for the Social Sciences
ETB	Ethiopian Birr
E-payments	Electronics payments
E-banking	Electronics banking
IFB	Interest Free Banking
NPL	Non Performing Loan
NBE	National Bank of Ethiopia
IMF	International Monetary Fund
ATM	Automated Teller Machines
SD	Standard Deviation
BP	Brand Position
PSQ	Product and Service Quality
AFS	Automated Financial Service
SBS	Secured Banking System
CLD	Card-Linked Banking
FExR	Foreign Exchange Rate
OpE	Operating Expense
P	Profitability

Chapter One: Introduction

1.1 Background of the Study

There has been a growing intensity of competition in virtually all areas of business, whether at home or abroad, in markets upstream for raw materials, components, supplies, capital and technology advancement as well as markets downstream for consumer goods and services (Wind and Robertson, 1983). This has resulted to pay greater attention to analyze what type of competitive strategies model firms should implement to achieve above average performance and ensure their competitive advantage under different environmental conditions.

Michael E. Porter (1985) examined the levels of firms' performance (performance of profitability, customer satisfaction, sales growth etc.) associated with his generic competitive strategies along with their organizational characteristics and the type of environmental conditions under which these competitive strategies are most likely to be pursued by the organization. The primary emphasis has been on examining the link between strategy, environment and performance in an effort to achieve a position of competitive advantage. He has also considered that in the long-term the extent to which the firm is able to create a defensible position in an industry is a major determinant of the success with which it will out-perform its competitors. He therefore, proposed the generic competitive strategies by which a firm can develop a competitive advantage and create a defensible position. These strategies are (i) overall cost leadership, (ii) differentiation, and (iii) focus. The focus strategy has two variants: cost focus and differentiation focus. Porter argued that by adeptly pursuing the cost leadership, differentiation, or focus strategies, businesses can attain significant and enduring competitive advantage over their rivals (Porter, 1985).

According to Porter (1985), the notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and in order to attain competitive advantage the organization has to make a choice about the type of competitive strategies , it seeks to attain and the scope within which it will attain it. Porter (1980) also argued that the three generic competitive strategies are differing in dimensions other than the functional differences so that implementing them successfully requires different resources, leadership skills and working environments. The generic competitive strategies also imply differing organizational

arrangements, control procedures and incentive systems. They may also require different styles of leadership and can translate into very different corporate cultures and atmosphere

In light of the rapid technological developments and intensifying competition in the banks industry, it becomes difficult for organizations which do not adopt effective competition strategies to survive in an environment with such complexities and consistent changes. In a competitive market or industry, it is not advisable to have only one competitive strategy in place hence the adoption of integrated set of strategies sometimes referred to as ―focus strategy. The focus strategy is an integrated set of actions designed to produce or deliver goods or services that serve the needs of a particular competitive segment (Porter, 1996).

A firm's relative position within its industry determines whether a firm's performance is above or below the industry average. The fundamental basis of above average performance in the long run is therefore assuring sustainable competitive advantage by practicing one or mixes of generic completive strategies. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to the three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus (Porter, 1996).

The business of banking is an intermediary financial service that undertakes to engage in dealing with others money. The business of banking, in its widest sense, is to collect in capital resources that is either money or can readily be turned into money and upon the capital so collected, to build up by proper management and machinery, the credit which will extend and enlarge the usefulness to the community of its actual money capital. Banks are constituted to make capital circulate, not to lock it up (Shelagh, 1996). Thus, banks are financial intermediaries that mobilize, allocate and invest the greatest part of the financial resources collected in the form of savings. Accordingly, their performance has substantial consequences on capital allocation, firm expansion, industrial growth and economic development.

Banking industry is one of the fastest growing industries in Ethiopia. Before 1991, the banking sector was run by only government owned banks. Following the Monetary and Banking Proclamation of 1994, a number of private banks have been opened in Ethiopia. Due to this, CBE is in stage of facing intense competition in the banking industry. Thus, implementing

competitive strategies is the very important ways of doing the business to survive in the banking market.

Commercial Bank of Ethiopia is the biggest government owned bank and the largest commercial bank in the country. The bank has opened 1222 branches throughout the country. It has 15.9 million account holders and 1.4 million mobile banking & 25,683 internet banking users. The bank's total deposit & capital has reached ETB 364.9 billion & 485.7 billion respectively and the number of employees has reached 33,706 (Annual report of year 2017)

1.2 Statement of the Problem

Banking industry has traditionally operated in a relatively stable environment for decades. However, today the industry is facing dramatically aggressive competition in a new deregulated environment (Reynolds, 2005). In Ethiopia, the competitions among commercial banks have increased especially in terms of service quality, cost efficiency (including use of banking technology) and branch network expansions, advertising and prices paid on fixed deposit (Zerayehu, Kagnew and Teshome, 2013). This stiff competition challenges banks to achieve their target of profit, sales growth and customer satisfaction. CBE's target of profit for the year 2017 was ETB 18 billion and its achievement was ETB 14.6 billion which is 77.78 % (CBE's Annual report, 2017). This achievement is not bad but not satisfactory.

According to Porter (1985), by adeptly pursuing and implementing the cost leadership, differentiation, or focus strategies, businesses can attain significant and enduring competitive advantage over their rivals. He also argues that in light of the rapid technological developments and dynamic environments, it becomes difficult for organizations to survive without adopting appropriate competition strategies.

The state owned financial giant, CBE, total assets will soon climb to a half trillion birr. The bank disclosed in its annual financial performance for the fiscal year 2016/17 that it has registered massive progresses in every aspect of the banking activity. However, according to Uvaneswara, Eldana and Seid (2017), CBE has weakness of assuring service differentiation that customers are demanding, especially in regards to technology advancement. Customers are disappointed by ATM service because of problems related to the machine either defective or short of transactions (Hardware fault), network failure, power interruption, inconvenient location of ATM, awareness gap and related problems that hinder the service quality and the bank's profit. According to the

bank's annual report of the year 2017, the total ATM card holders are 3.7 million, out of which only 2.7 million cards are active i.e. 27.10% of distributed cards are defected cards .The causes of these problems are failure of practicing cost efficient marketing strategies.

According to Zerayehu, Kagnew and Teshome (2013), the Banking business environment in Ethiopia has drastically changed resulting in some commercial banks opening a number of branches across the country. Nowadays, CBE is facing stiff competition locally and globally especially the bank is in a low track of practicing technological tools that make it to be differentiated and cost effective in service delivery system such as digital banking services. For example the bank has 15.9 million account holders. Among them internet and mobile banking users are 25,683 (0.16%) and 1.4 million (8.8%) respectively which is very poor achievement of online services (Annual report, 2017).

Commercial Bank of Ethiopia is facing the problem of increasing non-performing loan (NPL) due to: First, Loans are given to the borrower without considering the character, capital, capacity, collateral and condition of the loan applicant; Second, Strong political influence on the bank to provide loan to some business person although they have bad reputation of loan default and Third, Rescheduling of loans is offered to the defaulters without any down payment (Belayneh Zeleke, 2017).According to Amenawo, Hodo and Emmanuel (2016), NPL has a significant but negative effect on commercial banks profitability.

Nowadays, Commercial Bank of Ethiopia is hitting by a dire shortage of foreign currency due to drop in the export of goods in the past three to four years along with financial problems in the country. The shortage and instability of foreign currency affects the achievement of the bank's target of customer satisfaction and profit (Amenawo al.et, 2016).

Another factor that the bank should give focus to achieve its target of profit is launching Interest Free Banking (IFB). Ethiopia's Muslim community shy away from banking services due to the interest attached on money saving . In 2015, CBE started IFB and the total deposit is now reaching 2.5 billion Birr & the number of account holders using IFB is 150,000 (0.9%) which is the very poor performance (www.combanketh.et/). But globally, the number is growing at between 15 and 25 percent annually.

Guided by these facts, the researcher motivated to study the effects of porter's generic competitive strategies on CBE's profitability.

1.3 Research Questions

1.3.1 Main Research Question

What are the effects of Porter's generic competitive strategies on the profitability of Commercial Bank of Ethiopia?

1.3.2 Sub Research Questions

1. What is the effect of cost leadership strategy on profitability?
2. What is the effect of differentiation strategy on profitability?
3. What is the effect of focus strategy on profitability?

1.4 Objectives of the Research

1.4.1 General Objective

The general objective of this study is identifying the effects of Porter's generic competitive strategies on the profitability of Commercial Bank of Ethiopia.

1.4.2 Specific Objectives

Specifically, this study addresses the following specific objectives:

1. Identifying the effect of cost leadership strategy on profitability.
2. Identifying the effect of differentiation strategy on profitability.
3. Identifying the effect of focus strategy on profitability.

1.5 Research Hypotheses

H_1.There is a significant effect of cost leadership strategy on profitability.

H_1 a, There is a significant effect of foreign exchange rate on profitability

H_1 b, There is a significant effect of non-performing loan on profitability

H_1 c, There is a significant effect of operating expense on profitability

H_2. There is a significant effect of differentiation strategy on profitability.

H_2 a, There is a significant effect of brand position on profitability

H_2 b, There is a significant effect of product/service on profitability

H_2 c, There is a significant effect of technology advancement on profitability

H_3. There is a significant effect of focus strategy on profitability.

H_3 a, There is a significant effect of interest free banking on profitability

H_3 b, There is a significant effect of digital banking service on profitability

1.6 Scope/Delimitation of the Study

This study concentrates on effects of generic competitive strategies on the profitability of Commercial Bank of Ethiopia. According to Porter (1985), variables of generic competitive strategies include brand identification, channel selection, product/service quality, innovation and technological advancement, low pricing of product/service, high vertical and horizontal integration, pull and push strategy, and low cost position.

Under these variables mentioned above, the researcher has focused on the following variables in case of CBE by considering problems observed in the bank performance.

- Non- performing loan, operating expense and foreign exchange rate as variables of cost leadership strategy;
- Brand position, technology advancement and product/ service quality as variables of differentiation strategy;
- Interest free banking and e-banking services (digital banking) as variables of focus strategy.

This study delimited to managements and employees of the marketing department of CBE at head office excluding other departments because of business related strategies such as marketing strategies and competitive strategies like cost leadership, differentiation and focus strategies formulation, design ,redesign, evaluation and follow up of its effectiveness is mainly performing in marketing department.

The study has conducted by using quantitative method.

1.7 Limitations of the Study

This study designed to use explanatory research method. According to Zikmund, et al. (2012) this method has the following limitations:

1. It can be difficult to reach appropriate conclusions on the basis of causal research findings. This is due to the impact of a wide range of factors and variables in economic environment. In other words, while casualty can be inferred, it cannot be proved with a high level of certainty.
2. It certain cases, while correlation between two variables can be effectively established; identifying which variable is a cause and which one is the impact can be a difficult task to accomplish.

Moreover negligence of some respondents to respond to the questionnaire frankly and timely was also the limitation of this study.

1.8 Significance of the Study

The contribution of this study includes the following:

- It helps the banks management to see whether the competitive strategies put in place resulted in better performance of sales growth and profitability,
- It helps other researchers who want to make further study on the area afterwards as a source of reference and to conduct additional studies,
- It also gives information to policy makers that how the profitability of the bank affected by directives they have issued and gives them information whether the directives have achieved their objectives or not and,
- It gives other stakeholders to look into the environment their bank is engaged in and the effort of the management to tackle the challenges prevailing in the business environment.

1.9 Definition of Key Terms of the Study

- Generic Strategies: It includes an overall cost leadership strategy, a differentiation strategy, or a focus strategy for creating a defendable position in the long run and outperforming competitors in a given Industry (Porter, 1980).
- Cost Leadership Strategy: A Bank decides to become the low cost producer in its industry by charging the lowest price or rates for its services (Porter, 1980).

- Differentiation Strategy: The Bank focuses its effort on differentiating the product or service offering, tailoring the product or service to the needs of the customer, creating something that is perceived industry wide as being unique (Porter, 1985).
- Focused Strategy: The focusing bank selects a segment or group of segments in the industry and tailors its strategy to serving them effectively and efficiently to the exclusion of others (Porter, 1985).
- Bank: a financial institution licensed to receive deposits and make loans (Shelagh, 1996).
- Non-Performing Loan: Nonperforming loan and advances are a loan whose credit quality has deteriorated and the full collection of principal and/or interest as per the contractual repayment terms of the loan and advances are in question (NBE, 2008).
- Profitability: Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. In other words, this is a company's capability of generating profits from its operations.

1.10 Organization of the Study

The study has been organized in five chapters. Chapter one presents background of the study, statement of the problem, research questions, scope of the study, and limitation of the study, significance of the study and objectives of the study. The second chapter comes across with the review of related literatures. The third chapter illustrates the research design, sample and sampling techniques, source of data, methods of data collection, and methods of data analysis. The fourth chapter summarizes the results and findings of the study and interpretation of discussion of findings. The fifth chapter, which is the closing chapter includes summary of findings, conclusions, and practical recommendations has been drawn.

Chapter Two: Review of Related Literature

2.1 Introduction

This study focuses on determining the effects of Porter's generic competitive strategies on the profitability Commercial Bank of Ethiopia. According to Porter (1998), competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute for its performance such as innovations, a cohesive culture, or good implementation. Competitive also determines a firm's position in an industry and the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position than the competitors have.

According to Porter (1985), Competitive advantage aims to offer consumers greater value, either by means of lower prices or by providing products that gives the consumer greater benefits and services that justifies a higher price. Creating value provides insights into the sources of competitive advantage that he calls" generic strategies": an overall cost leadership strategy, a differentiation strategy, or a focus strategy for creating a defendable position in the long run and outperforming competitors in a given industry. He argued that by adeptly pursuing the 'generic strategies' businesses can attain significant and enduring competitive advantage over their rivals by achieving the demand of customers and firm's profitability.

The main problem that challenges many firms is achieving sustained competitive advantage in the market. Sustained competitive advantage is the result of an enduring value differential between the products or services of one organization and those of its competitors in the minds of customers. Therefore, organizations must consider more than the fit between the external environment and their present internal characteristics. They must anticipate what the rapidly changing environment will be like, and change their structures, cultures, and other relevant factors so as to reap the benefits of changing times. Sustained competitive advantage has become more of a matter of movement and ability to change than of location or position (Stalk, Evans and Shulman, 1992).

2.2 Theoretical Literature Review

2.2.1 Porter's Generic competitive Strategies

Porter's generic model, which highlights cost leadership, differentiation and focus as the three basic choices for firms, has dominated corporate and business competitive strategy for the last 30 years (Pretorius, 2008). According to this model, a company can choose how it wants to compete, based on the match between its type of competitive advantage and the target market pursued, as the key determinants of choice (Akan et al, 2006). Porter (1985) argued that generic strategy model remains one of the most notable in the strategic management literature. A business can enhance its profitability either by striving to be the low cost producer in an industry or by differentiating its line of products or services from those of other businesses; either of these two approaches can be accompanied by a focus of organizational efforts on a given segment of the market. Any organization that fails to make a strategic decision to opt for one of these strategies as a means of enhancing profitability is in danger of being outplayed by its rivals.

According to Cohen et al (2006), Porter's three set of generic competitive strategies (differentiation, cost leadership and focus) influences firms' profitability and performance of customer satisfaction. There is evidence that the three porter's generic strategies can enable an organization to attract more customers than its competitors. It is important for firms to identify customer's wants and find a suitable channel to give it to them so as to meet and exceed their expectations. All the three strategies have the potential to enhance firms' performance; however, all may not be equally suitable for a firm (Cohen et al, 2006). This is because the three strategies differ on a number of dimensions and pose different requirements, for example in terms of resources, skills, organizational arrangements, control procedures, incentive systems and management style

Michael E. Porter (1980; 1985) proposes three generic competitive strategies for outperforming other firms in a particular industry, namely: cost leadership, differentiation and focus defined along two dimensions: Broad scope and Narrow scope. Porter (1980) explains that the three generic competitive strategies are an essential part of any effective business plan, which a firm can use to obtain a competitive market position. Porter (2004; 2008) further explain that a firm may gain cost advantage through proprietary Technology advancement , cheap raw material, Low pricing of products/services; while the strategy of differentiation can be used by offering a different product, a different delivery system, a different marketing approach, or by emphasizing

on Technology advancement , brand position and product/service qualities. Firms can also offer a narrow range of products/services or target specific customers.

Each of the generic strategies involves a fundamentally different route to competitive advantage, combining a choice about the type of generic competitive strategies sought with the scope of the strategic target in which competitive advantage is to be achieved. The cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments, while focus strategies aims at cost advantage (cost focus), or differentiation (differentiation focus) in a narrow segment. (Porter, 1998) explained that cost leadership is perhaps the clearest strategies among three generic strategies, Porter (1985).

Organizations require an effective competitive strategy to operate successfully in the market where there is established and potential competition. Choosing competitive strategies which will deliver competitive advantage is an inexact process (Capon, 2008). Capon (2008) also argues that the achievement of competitive advantage and hence superior profits are central to the strategy of any organization. Also successful achievement of competitive advantage is likely to result if a company is clear about its competitive strategy. Porter (1985) by this positioning determines whether a firm's profitability is above or below the industry average. A firm that can position it well may earn high rates of returns even though industry structure is unfavorable and the average profitability of the industry is therefore modest.

2.2.1.1 Cost Leadership Strategy

A cost leadership strategy is based upon a business organizing and managing its value adding activities so as to be the lowest cost producer of a product within an industry. A successful cost leadership strategy is likely to rest upon a number of organizational features. Attainment of cost leadership depends upon the arrangement of value chain activities (Evans, Campbell & Stonehouse, 2006). Accordingly, Porter (1985) suggested that cost leadership firms need to control costs tightly, refrain from incurring too many expenses from innovation or marketing, and cut prices when selling their products

The broad scope of cost leaders means that they attempt to serve a large percentage of the total market. Companies pursuing a low-cost strategy will typically employ economies of scale, outsourcing, and control of overheads, technological advantages and operational efficiency to create low cost positions. Consequently, they can keep prices low and attract a wide segment of

the market interested in inexpensive products (Harrison & Enz, 2005). According to Porter, a low cost producer must find and exploit all sources of cost advantage. However, a cost leader cannot ignore the sources of differentiation. This means a cost leader must succeed in gaining differentiation proximity or parity even though competitive advantage is sourced by cost leadership (Porter, 1985). Porter argued that cost leadership is suitable when the company has economies of scale and possess the ability to reduce the cost owing to experience curve effect.

According to Porter (1985), in cost leadership, a firm sets out to become the low cost producer in its industry. Low cost producers typically a standard, or no frills, product and place considerable emphasis on reaping scale or absolute cost advantages from all sources. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its competitors, a cost leader's lower cost position translates in to higher returns.

Cost leadership involves becoming the low cost firm in an activity and practicing the cost variables that make the firm cost efficient such as operating expense (including low overhead cost, low labor cost and low material costs), deploying skilled and experienced staff, products/process quality and low pricing of goods and services (Johnson, et al., 2011).Products/process design influence efficiency by making products from cheap standard materials while low pricing is made possible by having products that are close to competitors in terms of features. The firm can then make small price cuts to compensate the slightly lower quality (Johnson et al., 2011). The low cost strategy should translate to a profit margin that is higher than the industry average (Porter, 1985).

Cost leadership is perhaps the clearest strategies among three generic strategies Porter (1985).Cost leadership offers a lower price to customers compared to what competitors can offer with a similar product or service. By pursuing low costs, companies not only operate efficiently, but also become an effective price leader, undermining competitors' growth in the industry through its success at price war and undercutting the profitability of competitors. If the firm's cost of sale or cost of raw material is lower than its competitors, then the firm can offer lower prices, higher quality, or both. By innovative best practice, organizational processes, with careful monitoring on purchasing expenditures, application of computer and communications technology advancement in cost effective way, trimming of overhead cost, and efficient operations, a firm can achieve the cost reduction. Sometime, cost reduction can also be achieved by outsourcing

manufacturing and services when outsider providers offer lower cost alternatives. With the same quality level but lower cost, the low cost firm could be able to undermine the price of competing firms. When attempting to achieve an overall cost leadership position, low cost relative to competitors is the theme running through the entire strategy (Spulber, 2009).

2.2.1.2 Differentiation Strategy

The second generic strategy is one of differentiating the product or service offering of the firm, creating something that is perceived industry wide as being unique. This strategy involves uniqueness in doing something that is sufficiently valued by customers to allow a price premium (Johnson et al., 2011). The emphasis can be on brand position, proprietary technology advancement, special features, superior service, a strong distributor network or other aspects that might be specific to an industry. The uniqueness should also translate to profit margin that is higher than the industries average (Porter, 1985).

Differentiation strategy involves developing a product or service that offers unique attributes that are valued by the customers in that the customer perceives them to be better than or different from those of competitors. Needs and demands of the customer must be accurately defined and value must be delivered. The firm might differentiate itself in terms of product form, brand position, product features and quality, breath of product line, Technology advancement , customer service and pricing or distribution channels. This strategy is appropriate where the target customer is not price sensitive, market is competitive, customers have specific needs and the firm has unique resources and capabilities which enable it satisfy this needs in ways that are difficult to copy (Porter, 1985). In a highly competitive market, the shortest route to differentiation is through brand position, product features and customer service. This is evident in the banking industry, where banks are providing more or less identical products for nearly the same price. Unless a bank can extend its product quality beyond the core service with additional and potential service features and value, it is unlikely to gain customer satisfaction (Chang et al., 1997)

A firm that can achieve and sustain differentiation will be above average performer in its industry if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiation that lead to a price premium greater that the cost of differentiating. A differentiator cannot ignore its cost position, because its premium prices will be nullified by markedly inferior cost position (Porter, 1998).

Differentiation strategy as a tool for gaining competitive advantage, an organization distinguishes itself in a competitive marketplace by differentiating its offering in some way by acting to distinguish its products and services quality & feature from those of its competitors (Mintzberg et al., 1999). An organization can differentiate its offering in different ways, by using Price (charging a lower price) which is the most basic way to differentiate a product or services. Band position can also be used by creating an image in the minds of consumers which does not otherwise exist. Also a firm can differentiate by offering support through servicing the product, providing a related product or service alongside the basic one. Quality differentiation by offering products with better features which are reliable, durable and also of superior performance, design differentiation by offering something that is truly different that breaks away from the dominant design by providing unique features.

A differentiation strategy is based upon persuading customers that a product is superior in some way to that offered by competitors. Differentiation strategy emphasizes on creating value through uniqueness, as opposed to lowest cost (Hlavackaet et al., 2001). Uniqueness can be achieved through service innovations, superior service, creative advertising and branding among others. The key to success is that customers must be willing to pay more for the uniqueness of a service than the firm paid to create it. Firms adopting a differentiation strategy can charge a higher price for their products. Differentiation strategy appeals to a sophisticated or knowledgeable consumer interested in a unique and quality product. According to Ovidiu et al (2009), differentiation strategy is one of Porter's strategies used in the service industry for the purpose of enhancing customer satisfaction. It is believed that differentiation strategy can be the result of a strong strategic campaign designed to strengthen the unique characteristics of the products/services within the mind of the consumers. The brand name is a strong differentiation element within such a strategy. Offering unique and a broad range of new services to customers and refining existing services delights customer since they have a variety to choose from (Abratt &Dion, 2006).

2.2.1.3 Focus Strategy

The final generic strategy is focusing on a particular buyer group, segment of the product line, or geographic market; as with differentiation, focus may take many forms. Although the low cost and differentiation strategies are aimed at achieving their objectives industry wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind. The strategy rests on the premise that the firm is thus able to serve

its narrow strategic target more effectively and efficiently than competitors who are competing more broadly. As a result, the firm achieves either differentiation from better meeting the needs of the particular target, or lower costs in serving this target, or both. Even though the focus strategy does not achieve low cost or differentiation from the perspective of the market as a whole, it does achieve one or both of these positions vis-a-vis its narrow market target (Porter, 1980).

According to Porter (1985), the focus strategy has two variants. In cost focus a firm seeks a cost advantage in its target segment, while in differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segments and other segments in the industry. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments are poorly served by broadly targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to segments exclusively.

A business that lacks the resources to compete in a broad product market must focus in order to generate the impact that is needed to compete effectively. A focus strategy provides the potential to bypass competitor assets and skills. Small companies, the better ones, usually thrive because they serve narrow market niches. Market focus allows these businesses to compete on the basis of low cost, differentiation and rapid response against much larger businesses with greater resources because focus lets a business "learn" its target customers, their needs, special considerations they want accommodated and establish personal relationships in ways that "differentiate" the smaller firm or make it more valuable to the target customer (Pearce and Robinson, 2005).

Focus strategy whether anchored in a low cost base or a differentiation base, attempts to attend to the needs of a particular market segment. Likely segment are those that are ignored by marketing appeals to easily accessible markets, to the typical customer or to customers with common applications for the product (Pearce et al., 2010). A firm pursuing a focus strategy is willing to service isolated geographic areas to satisfy the needs of customers with special financing inventory, or servicing problems or to tailor the product to the somewhat unique demands of the small to medium sized customer. The focusing firms profit from their willingness to serve otherwise ignored or underappreciated customer segments.

Thompson et al. (2008) argues that for the focus strategy to be attractive the following conditions should be met. The target market niche should be big enough to be profitable and offers good growth potential. The industry leaders do not see that having a presence in the niche is crucial to their own success. It is costly or difficult for multi segment competitors to put capabilities in place to meet the specialized needs of buyers comprising the target market niche and at the same time satisfy the expectations to their mainstream customers. The industry has many different niches and segments. Also the focuser has a reservoir of customer goodwill and loyalty that it can draw on to help stave off ambitious challenges looking to horn in on its business.

2.3 Empirical Literature Review

2.3.1 Cost Leadership Strategy and Profitability of the Bank

Spulber (2009) carried a model-based study on the effectiveness of the low-cost model on the profitability of banks. Spulber (2009) found that banks with the lowest costs will earn the highest profits in the event when of competing products which are essentially undifferentiated, and selling at the standard market price. The companies which follow this strategy places more emphasis on the cost reduction in every activity on the value chain. Spulber (2009) however found that company's focuses on the reducing costs at the expense of other vital factors, this may become dominant if the company loses vision on why it embarked on such strategy in the first place.

Alex, Richard, Benjamin and Steve (2017) suggested that aligning systems with market needs does not improve performance. Instead, firms serving low cost markets should first focus managers' attention on processes and centralize resources around key processes, before reducing process flexibility and automate as many steps as possible to develop a low cost capability that is difficult to imitate.

It has been argued (Nikos, 2012) that the profitability of banks is highly associated with the cost efficiency activities of banks. When banks have low cost position vis-à-vis their competitors, they achieved their competitive advantage easily.

Nayantara and Hensel (2006) suggested that larger banks (as measured by value of assets/loans/ deposits/investments, and number of employees/branches) were more likely to be in the decreasing/constant returns to scale/density region than smaller banks, the finding was statistically significant for all three types of Japanese banks. On average, city banks exhibited

diseconomies of scale/density; trust banks exhibited constant returns to scale and increasing returns to density, and regional banks exhibited increasing returns to scale and density. This suggests those unions between city banks and either regional banks or trust banks may have been more likely to yield cost-efficiencies, and raises questions concerning the efficiency motivations of the mega-bank mergers. The findings further indicate that banks with higher sales were more likely to have exploited scale/density efficiencies, and that banks with higher net incomes were more likely to be in the increasing returns region.

Daniel Kinyuira (2014) founded that significant positive effects of cost leadership, differentiation and focus strategies on performance of Savings and Credit Cooperatives in Kenya and concluded the firm that pursue generic strategies can achieve superior performance of profit generating compared to those that do not. He concluded that generic strategies have a strong predictive effect on performance of the firm; with cost leadership having the greatest effect. Therefore cost leadership strategy can help a firm to realize the most statistically significant superior performance of sales growth and profitability when compared to a firm pursuing differentiation or focus strategies.

Thomas and William (2004) analyzed the findings on the relationship between competitive methods, generic strategies, and firm performance. It was found that competitive methods in the banking industry correspond to Porter's generic strategy types and that a cost leadership strategy provides a statistically significant performance advantage over banks that are stuck-in-the-middle in terms of profitability and customer satisfaction. Alternatively, firms that used competitive methods to pursue a broad differentiation, customer service differentiation, or focus strategy were unable to realize a performance advantage over firms that are stuck-in-the-middle. This study suggests that in the banking industry it may be difficult to generate superior returns using a differentiation or focus strategy.

Powers and Hahn (2004) examined the performance impact of generic strategies in banking industry. Their study indicated that banks fall into five clusters based on the type of strategy they used: general differentiation strategy, focus strategy, stuck in the middle, Cost leadership strategy, and customer service differentiation strategy. The performance of cost leadership followers was significantly higher than that of stuck in the middle firms. However, other strategy followers could not gain significant performance of achieving profitability advantage over the stuck in the middle group.

Luqman, Abimbola, and Rotimi (2015) have conducted the research and the research identifies five strategic attributes that could assist organizations to grow their businesses and enhance their returns. It reveals that all Porters' generic competitive strategies are significantly related to organizational financial performance measures of profitability, sales growth and customer satisfaction except focus strategy. The research found that three generic competitive strategies are positively related to non-financial performance and that differentiation and cost-leadership strategies are capable of assisting organizations' achieve their financial performance goals.

In commercial banks specific practicing low non-performing loan, low operating expense and having foreign exchange rate associated with cost leadership strategy are the vital factors to banks to have cost efficient position.

A. Foreign Exchange Rate and Profitability

Wong, Wong and Leung (2008) stated that "foreign exchange movement could be an important source of risk for banking institutions. While mild cases could result to erosion of banks profit; large foreign exchange fluctuation could also result to bank failure in terms of cost efficiency, customer satisfaction and profitability. Due to the serious implication what foreign exchange movement could cause to risk management, commercial banks and central banks had placed large interest on measuring banks' foreign exchange exposure.

In a similar empirical study, He, Fayman and Casey (2014) examined the impact foreign currency fluctuations have on banks profitability using 22 large U.S commercial banks. Their result also observed that large U.S. banks were exposed to foreign exchange risk and that specific bank performance was related to the value of the dollar relative to market baskets of other currencies. The significance of this result lies in the fact that the increasing global business environment does not isolate U.S banks from the prevailing levels of global economic activities.

Taiwo and Adesola (2013) investigated the relationship between foreign exchange fluctuation and banks profitability. The authors captured profitability in two respects, firstly as, the ratio of total loan loss to total advances, and secondly as, the ratio of bank capital to deposit. Their result was significant in two respects, (a) the tendency of banks to accumulate excessive bad loans by reason of fluctuation in exchange rate (b) bank capital level might be seriously undermined due to deteriorating exchange rate. From the opinion of the authors it could be reasoned that, banks are bound to experience decline in profit given uncontained fluctuations in exchange rate.

B. Non-Performing Loan and Profitability

Woo (2000) supposed that, on the macroeconomic assumption, non-performing loans are typical signal of the financial crisis. Rising interest rate, economic slowdowns, currency exchange rate depreciation can even severely deteriorate the phenomenon of non-performing loan and the NPL affects the low cost position and profitability of banks. Experiences from the financial crisis in many nations show that non-performing loan is the product of the problematic issue of financial market. Accordingly, it can be inferred that poor asset quality, limit capital capacity, liquidity shortage, and poor corporate governance and risk management practices (Harry H.T., and Thuan Nguyen, 2011).

C. Operating Expense and Profitability

Since the early 1990s, advances in information, communications and financial technologies have allowed banks to perform many of their traditional services more efficiently. Consequently, the cost-to-income ratio, a proxy for operational efficiency has been declining almost everywhere to different degrees (Albertazzi and Gambacorta, 2009), meaning that banks have lower expenses for a given level of output. Previous studies suggest a positive and highly significant effect of efficiency on profitability (Alexiou and Sofoklis, 2009; and Pasiouras and Kosmidou, 2007). This relation would imply that operational efficiency is a prerequisite for improving the profitability of the banking system, with the most profitable banks having the lowest efficiency ratios. On the other hand, Berger and Humphrey (1994) note that managerial ability in controlling costs (the so-called X-efficiency) is much more important than economies of scale and scope are —on average, banks may have costs about 20% higher than the industry minimum for the same scale and product mix because of poor management. Also, Berger (1995a) concludes that X-efficiency, or superior management of resources, is consistently associated with higher profits.

2.3.2. Differentiation Strategy and Profitability of the Bank

By utilizing differentiation strategy, a bank can be differentiated in its industry or products in areas that are highly valued by its clients. This may involve customized and broad range of product offerings, location of branches, reputation, creativity by enhancing research and development, use of state of the art technology advancement, alternative payment channels like ATM, and internet banking or the possibility of remote access, door to door services and selecting one or more attributes that many buyers in the banking industry perceive as important,

and then uniquely positions themselves to meet those needs. This uniqueness is rewarded by charging a premium price with service quality. It follows therefore that costs are only added in areas that customers perceive as important which again can relate to any area of the operation (Thompson and Martin, 2005).

Devinder et al. (1988) argue that both retail and commercial banks show benefits achieving above average profit from marketing differentiation strategy. As a result of these characteristics, banks may be well advised to maintain their marketing strategy of segregating their retail business from commercial business.

Both cost leadership and differentiation strategies have a positive impact on contemporaneous performance. However, the differentiation strategy allows a firm to sustain its current performance of achieving superior profit in the future to a greater extent than a cost leadership strategy. The differentiation strategy, though, is also associated with greater systematic risk and more unstable performance (Rajiv, Raj and Arindam, 2014).

Luliya et al. (2013) found that all competitive strategies positively and significantly enhance firm performance through performance measurement of profitability and market share. Specifically, firms' differentiation strategy not only has a direct and significant impact on firm performance but also it has indirect and significant impact on firm performance through financial measures such as sales growth, profitability and market share. Cost leadership strategy that firms pursue does not directly affect firm performance. However, it does so indirectly and significantly through financial performance measures.

Hahn and Powers (2010) identified distribution, technology advancement, segmentation, pricing, product development, branding, service quality, and relationship banking as areas where financial institutions pursue differentiation strategies. M.K., Abby and Nicholas (2011) also suggested that firms adopting one of the strategies, namely cost-leadership or differentiation, perform better than "stuck-in-the-middle" firms which do not have a dominant strategic orientation. The integrated strategy group has lower performance of profitability compared with cost-leaders and differentiators in terms of financial performance measures (sales growth, profitability and market share). This provides support for Porter's view that combination strategies are unlikely to be effective in organizations.

Among different dimensions of differentiation strategy brand position, product/services quality and technology advancement are the common organizational success requirements that enable companies to achieve their target of profitability and customer satisfaction (Porter, 1985).

A. Brand Position and Profitability

The differentiation of a product/service from others is now a crucial need for survival in severe competition. Therefore, knowing the importance of branding, from the previous ten years there is a typical increase in the research interest of brands where customer feel good for highly preferred brands. Accepting the relationships between consumers and their brands has realistic significance to marketers because it has noteworthy effect on the profit/revenues of company. Mostly it happens that companies with inferior brand position tend to acquire the firm having strong brand position, to improve its own brand in order to cultivate higher profit margins by cutting cost with a focus on the financial performance. Hence a strong brand name contributes a lot towards reputation and as well as income of the firm. The case is that branding is not only a marketing strategy for particular issue, but it openly affects the profitability of firm. Brand presents the company to breed maximum margins in future cash flows (Akhtar, Xicang and Iqbal, 2017).

The outcomes of the study conducted in Pakistan in Nestle Company by Akhtar and his friends revealed that there was a significant relationship between Brand position and profitability of the firm. This was described that competitive advantages are followed by the strong brand names of the firm. This amplifies organization's cash inflows and pick up the pace for the liquidity, provide a way to charge higher prices, profitability and provide repeat purchases by the consumers. The brand position also makes feasible for the company to diversify its products or extend its brands. Hence, creates positive image in the minds of the customers, which reflects the awareness about the brand which in turn is necessary for the efficient management of branding. Brand position increases the brand equity which lower down production costs, cultivate more profit (Akhtar, Xicang and Iqbal, 2017).

B. Technological Advancement and Profitability

The role of information in the actualization of various organizational objectives cannot be over-emphasized has it ensure prompt delivery of resources essential to attain an enviable ends. The contemporary business milieu is very dynamic and experiences rapid changes due to creativity, innovation, hi-tech changes, increased perception and demands from clients. Business organizations, especially the banking industry is operating in a complex and competitive

environment characterized by these changing conditions and highly unpredictable economic climate with Information and Communication Technology (ICT) is at the center of the change curve (Adeoti, 2005). Obasan Kehinde Agbolade has studied the effects of technology in Nigeria banks and confirmed that Information and communication technology has a substantial positive effect on bank's profitability. This implies that a marginal change in the level of the investment and adoption of ICT in the banking industry will result to a proportionate increase in the profit level (Obasan, 2011).

C. Product and Service Quality and Profitability

Parasuraman, Zeithaml and Berry (1988) observed that quality of service is very important in separating competing businesses in the retail sector as well as in banking. Banks seeking to maximize profitability have come to realize that good quality helps a bank obtain and keep customers and poor quality will cause customers to leave a bank. Lewis (1993) found that service quality was one of the most effective means of establishing a competitive position and improving profit performance. To establish a competitive position, it was noted by Hall (1995) that banks must measure and determine their level of service quality, if they desire to keep their customers and satisfy their needs. In some specific studies in four U. S. banks, Morrall (1994) found that the implementation of service quality at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented service quality, their profitability was also noticeably improved.

Profitability in the banking industry and every business enterprise is quite a significant success/growth indicator. This is so because profits reassure depositors/ stakeholders of the safety of their investments, of the competence of management and adequacy of capital base which together provide good defense against risk which is inherent in the banking industry. Banks with low profits can hardly venture into new markets, new programs or develop/innovate packages for their customers and the business. Consequently, firms need to analyze their performances from the viewpoint of their profits (Hall, 1995).

2.3.3 Focus Strategies and Profitability of the Bank

Richardson and Dennis (2003) found the focused differentiation approach was best for niche segments to increase the profitability of narrow market. Spanos, Zaralis and Lioukas (2004) studied the Greek manufacturing and found hybrid focused strategy (differentiation focus and cost focus) were preferable to achieve superior performance financial measures (profit, market share and revenue) of firms. Additionally, Hahn and Powers (2010) identified distribution, technology advancement, segmentation, pricing, product development, branding, service quality, and relationship banking as areas where financial institutions pursue differentiation strategies.

The banking industry is highly competitive, as more and more commercial banks enter the market, there is need to focus on competitive strategies to enable organizations gain customer satisfaction. Commercial banks face challenges that are brought about by the pressures of globalization, technological advances, changing customer's preferences and competition from non-banking financial institutions among others ones (Ennew & Binks, 1996). To address these challenges commercial banks should focus on competitive strategies that will enable them enhance their customer satisfaction hence enabling their survival and growth.

In commercial banks specific focusing on interest free banking and online banking services (Digital Banking) are the vital factors to have a competitive advantage over the competitors.

A. Interest Free Banking Implementation

According to some study, it is believed that interest free banking was began in the mid of 1960s in Egypt Mit-Gamer bank. Nowadays this banking practice has expanded to become a distinctive and fast growing segment of the international banking and capital markets. There are well over 200 Islamic banks operating in over 80 countries comprising most of the Muslim world and its number of customer is growing at between 15 and 25 percent annually (Ward and Ibrahim, 2010).

As the Commercial Bank of Ethiopia (CBE) is licensed by the National Bank of Ethiopia to give IFB services, it would provide the services at specified windows of selected branches of the bank. In 2015, CBE started IFB and the total deposit is now reaching 2.5 billion Birr & the number of account holders using IFB is 150,000 (0.9%). IFB is available to all customers who want to make use of the alternative banking service. CBE has a separate and dedicated system

that does not mix the movement of accounts in those windows with the regular ones. (www.combanketh.et).

B. E- Banking and Profitability

E-banking has unique characteristics that may increase an institution's overall risk profile and the level of risk associated with traditional financial services, particularly, strategic, operational legal, and reputation risks. These unique e-banking characteristics include (Jen-Her Wu et al., 2006):

- Speed of technological change.
- Changing customer expectations.
- Increased visibility of publicly accessible networks (e.g. the internet).
- Less face-to-face interaction with financial institutions customers.
- Need to integrate e-banking with the institution's legacy computer systems.
- Dependence on third party for necessary expertise, and
- Proliferation of threats and vulnerabilities in publicly accessible networks.

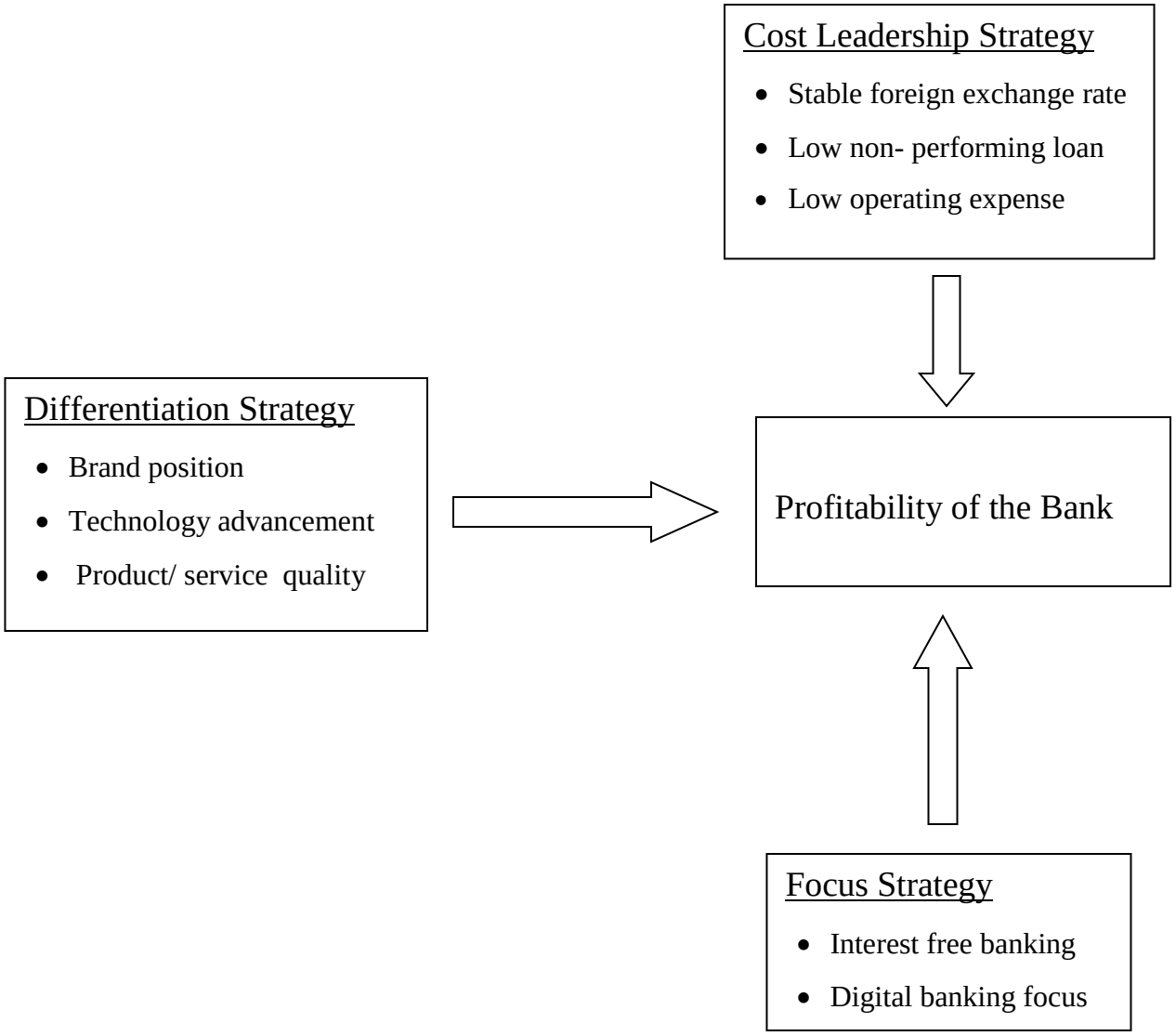
Siam (2006) examined the effect of electronic banking in bank profitability in Jordan. The population of the study is all working banks in Jordan which have sites on the internet for the period of 1999-2004.The results from the data analysis that were gathered from study instrument (questionnaire) showed that there is a correlation with statistical significance between the impacts of electronic banking in banks profitability as the following:

- A negative effect in profitability in the short run.
- A positive effect on profitability on the long run

Onay, Ozsoz and Helvacioglu (2008) investigated on the impact of internet banking on bank profitability. Their analysis covered thirteen banks that have adopted online banking in Turkey between 1996 and 2005. Using the approach of Hernando and Nieto (2007) and by using specific and macroeconomics control variables they investigated the impact of internet banking on return on assets and return on equity. Their results show that internet banking starts contributing to banks' return on investment with a time lag of two years confirming the findings of Hernando and Nieto while a negative impact is observed for one year lagged dummy. For the intermediation spread and commission and fee income our estimations fail to provide any significant relationship with internet banking.

2.4 Conceptual Framework

The researcher has adapted the conceptual framework of the study from Michael E. Porter (1985) that shows the relationship between variables of Porter's generic competitive strategies and the profitability of the bank.



Source: Adapted from Michael Porter (1985)

Chapter Three: Research Design and Methodology

This topic gives a detailed procedure of the methods that is used in this study. It outlines theoretical aspects, research approach and design, sample selection, data sources and types, instrument for data collection and analysis of data.

3.1 Research Approach

The researcher has used quantitative research approach. In quantitative method, data collected by using questionnaire and analyzed through correlation and regression computation of SPSS version 20. Inputs/data are graded using Likert- scales ranging from strongly agree to strongly disagree to obtain information about the performance of the bank on its achievement of target of profit, attitudes of employees, practices, and concerns of the management. This study also used secondary data from published documents such annual report, magazine and websites.

3.2 Research Design

This study has applied explanatory research design method because explanatory research study is used to obtain information about the link between the causes and results of the evidence. Explanatory research conducted in order to explain any behavior in the market. It could be done through using questionnaires for primary data from the respondents and published documents for secondary data collection. The primary goal of explanatory research is to understand the nature or mechanisms of the relationship between the independent and dependent variables (Saunders, Lewis and Thornhill, 2012). Thus, this study focuses on explanatory research because it is aimed at cause-effect statement about the effects of Porter's generic competitive strategies on the profitability of Commercial Bank of Ethiopia.

For this study, both primary and secondary sources of data used in order to collect appropriate data. Primary data collected from unpublished sources from Managements and employees, which are the results of questionnaires. The secondary data collected from different published materials like reports and manuals, journals, books, magazines, websites, research findings, policy documents and other relevant materials.

3.3 Population, Sampling Method and Sampling Size

3.3.1 Population

Since the scope of this study is limited to marketing department of CBE at head office due to its nature of studying on marketing strategies, the target population of this study is the managements and employees of the marketing department of CBE at head office because the marketing strategy formulation, design, evaluation and follow up of its implementation is vested to marketing department. But it doesn't mean that other departments have no responsibilities to formulation and implementation of marketing strategies rather this is to say that more of marketing issues including strategies are at the shoulder of marketing department.

Hence, the total population size of this study is all one hundred twenty one (121) marketing department staffs who are working at Head Office.

3.3.2 Sampling Method and Sampling Size

The researcher has used one of non-probability sampling method that is purposive sampling method. Purposive sampling method may prove to be effective when only limited numbers of people can serve as primary data sources due to the nature of research design and aims and objectives (Saunders, Lewis and Thornhill, 2012).Since the scope of this study is limited to marketing department of CBE at head office, and employees working in the department is limited in number i.e. 121, hence, using purposive sampling method was more appropriate.

Hence, the sampling size of this study is all one hundred twenty one (121) marketing department staffs who are working at Head Office.

3.4 Data Collection Techniques and Instruments

The researcher has used questionnaire as instruments of primary data collection. A questionnaire consists of a number of questions printed or typed in a definite order on a form or set of forms. The questionnaire consists of both open and closed ended question. It comprised of items measured on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). This method is appropriate as it is easy to complete and thus has a high response rate (Churchill, 1987).

The review of documents also helps to collect secondary data to understand the key facts about the impact of the factors under study by referring annual reports, bulletin, web sites and different publications.

3.5 Data Analysis Techniques.

Data analysis, also known as analysis of data or data analytics, is a process of inspecting, cleansing, and transforming data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. It is also a process for obtaining raw data and converting it into information useful for decision-making by users. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains (Adèr et al.2008).

Data collected was keyed in the computer, coded and analyzed with the aid of the Statistical Package for Social Sciences version 20 (SPSS) computer software to address all the research objectives and to test the hypothesis because this software has been widely used by researchers as a data analysis technique (Zikmund, 2003). Unless and otherwise stated, all the statements in the questionnaire rated on a 5-point Likert scale (strongly agree, agree, neutral, disagree, and strongly disagree). Numbers has assigned to this scale i.e., strongly agree = 5, agree = 4 … strongly disagree = 1.

Descriptive statistics (frequency, mean and standard deviation) was used to describe the study findings while inferential statistics (Pearson's two tailed correlation and linear regression) to analyze relationships between the independent and dependent variables. Research findings were presented in the form of tabular summaries and graphs

3.6 Validity and Reliability of Data Analysis Instruments

Validity measures the accuracy of instruments used in order to obtain data which can meet the research objectives (Kothari, 2004). Reliability of an instrument is the degree of consistency with which it measures a variable (Mugenda & Mugenda, 1999). Yin (2003), defines reliability as the extent to which the research may be replicated, yielding the same results.

The researcher has checked the validity and reliability of the data that collected from primary and secondary sources by using Cronbach's alpha-coefficient (α). Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group (Kimberlin and Winterstein, 2008). Cronbach's alpha-coefficient (α) is calculated as follows:

$$\alpha = \frac{n}{n-1}\left(1 - \frac{\sum Vi}{Vtest}\right)$$

Where:

α = reliability

n = number of questions in the questionnaire

Vi = variability of each of the question score

Vtest = variability of each of the overall questions' score (not %'s) on the entire test.

The internal consistency of items (variables) is acceptable when the reliability coefficient (Cronbach's alpha-coefficient) is equal to or greater than 0.70 (Bruin, J., 2006).

Multi-colinernity test was also carried out using Pearson's two tailed correlation analysis to identify the correlation between explanatory variables and to avoid double effect of independent variable from the model. If an independent variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect collinearity. We have perfect multi-collinearity if the correlation between two independent variables is equal to 1 or -1. More commonly, the issue of multi-collinearity arises when there is an approximate linear relationship among two or more independent variable (Belsley and David 1991).

3.7 Ethical Consideration

To encourage respondents forward their honest and correct response, the objectives of the research has clearly written and assurance for keeping their response with strict professionalism and confidentiality could be provided so that every informant give its response without fear.

These are important considerations established to protect the rights of research participants. In this case, all participants were fully informed on the procedures to be used; participants' privacy was guaranteed by use of official titles only and confidentiality by availing collected information only to those directly involved in the study. Also, data were not fabricated, falsified or misrepresented and was used for this academic research purpose only.

Chapter Four: Analysis of Data and Presentation of Results

4.1 Introduction

This section of the chapter dedicated to discuss the major findings and analysis of the sample population based on the data gathered from the respondents of employees who are working in CBE marketing department at head office. All the data were collected through questionnaires. Questionnaires contain closed and opened ended questions based on five point Likert scale to measure the relationship between generic competitive strategies and profitability of Commercial Bank of Ethiopia. Data collection process was completed within two weeks. Authorization was obtained from School of Commerce Marketing Management Department prior to data collection exercise. The study gave assurance to the respondents regarding confidentiality of information obtained through a letter of introduction. All 121 employees of marketing department working at CBE head office are incorporated in this study as sample respondents by using purposive sampling method. Out of 121 questionnaires designed and distributed to respondents, 115 of them were filled and returned back to the researcher. Of these, 6 responses had to be discarded due to invalid or incomplete data entries. Thus, the sample comprising of a total of 115 respondents was used for analysis which means 95% response rate. The information obtained from the respondents was summarized by descriptive statistics summary using SPSS version 20. The summarized data was then analyzed by applying Pearson's two tailed correlation and linear regression analysis model using the tabular explanations. Finally, interpretation was made to demonstrate the relationship between independent and dependent variables.

4.2 General Information of Respondents

This section outlines the findings on the demographic characteristics of the sample, which includes sex of the respondents, position held in the bank, education level and work experience.

4.2.1 Sex of the Respondents

In the following table sex of the respondents has been presented with respective frequency of occurrence in the data and percentage

Table 4. 1: Sex of Respondents

Gender	Frequency	Percent	Valid Percent	Cumulative percent
Male	70	60.87	60.87	60.87
Female	45	39.13	39.13	100
Total	115	100	100	

Source: Survey result, 2018

Table 4.1 illustrates the frequency and percentage distribution of sex of the respondents of this research. Out of 115 respondents surveyed in this research, 39.13% were female respondents and 60.87% were male respondents. This shows that the staff composition in marketing department still dominated by males. This means the bank doesn't implement gender mainstreams to avoid males' superiority in its work place. Hence, CBE should plan and implement gender mainstreaming as part of its work plan to balance the gender gap by taking different striving actions such as women affirmative action.

4.2.2 Education Level

The respondents were asked to indicate their education level. The responses are summarized and presented in table 4.2 below.

Table 4. 2: Education Level of the Respondents

Education level	Frequency	Percent	Valid percent	Cumulative percent
Certificate	0	0	0	0
Diploma	5	4.34	4.34	4.34
Fist degree	76	66.10	66.10	70.44
Second degree and above	34	29.56	29.56	100
Total	115	100	100	

Source: Survey result, 2018

From the findings, 4.34% the respondents were diploma holders, 66.10% of them were first degree holders as shown in Table 4.2 and 29.56 % of the respondents had attained up to second degree and above. This indicates that the majority of staff working in marketing department is 1st and 2nd holders.

4.2.3 Position in the Bank

The respondents were asked to indicate their position in the bank. The responses are summarized and presented in table 4.3 below.

Table 4. 3: Position of Respondents in the Bank

Position	Frequency	Percent	Valid percent	Cumulative percent
Junior Officer	40	34.78	34.78	34.78
Senior Officer	73	63.48	63.48	98.26
Manager	2	1.74	1.74	100
Director	0	0	0	
Other	0	0	0	
Total	115	100	100	

Source: Survey result, 2018

The findings in table 4.3 above show that 63.48% of the respondents were senior officer, 34.78% were junior officer and only 1.74% of them were holding at manager level. This shows that the majority of respondents are senior staff of the bank. Thus, the bank has experienced staff to develop and implement marketing strategies.

4.2.4 Experience

The respondents were asked to indicate the period of time they had worked in their current positions. The responses are summarized and presented in table 4.4 below.

Table 4. 4: Experience of Respondents

Experience	Frequency	Percent	Valid percent	Cumulative percent
Below one year	0	0	0	0
1-3 years	29	25.22	25.22	25.22
4-6 years	49	42.61	42.61	67.83
above 6 years	37	32.17	32.17	100
Total	115	100	100	

Source: Survey result, 2018

The findings in the table 4.4 above show that 25.22% of the respondents had been in their current positions for the period of 1 to 3 year, 42.61% of the respondents had been in their current positions for a period of between 4 to 6 years, 32.17% of the respondents had been in their current position for more than 6 years. This implies that about 74 % of employees working in marketing department of the bank have four and above years of experience. Hence, this may minimize employees' inefficiency due to lack of work experience.

4.3 Analysis of Cost Leadership Strategy Practices

One of the objectives of this study was to establish the effect of cost leadership strategy on profitability of Commercial Bank of Ethiopia. For a commercial bank to be an effective cost leader in a competitive banking environment, it must able to assure low cost position by practicing efficient utilization of the company's resources and implementing cost management systems. In this study, cost leadership strategy was measured by the extent to which a bank manages its operating expenses, non-performing loan and foreign exchange rate to assure its target of profitability. The researcher used the secondary data such as CBE's Annual report, magazine example Mudaye Neway and the bank's official web site (http://www.combanketh.et). Based on the secondary data collected, summary of the last eight years data of rate of foreign exchange, non performing loan, operating expense and profitability has been shown below in table 4.5.

Table 4. 5 Data of variables of cost leadership strategy

Year	Foreign exchange rate	NPL rate	Operating expense rate	Profitability rate
2010	0.136	0.017	0.169	0.028
2011	0.169	0.019	0.276	0.042
2012	0.175	0.021	0.364	0.079
2013	0.185	0.022	0.517	0.086
2014	0.194	0.014	0.751	0.097
2015	0.204	0.023	0.101	0.128
2016	0.215	0.027	0.131	0.139
2017	0.227	0.032	0.171	0.146

Source: CBE's Annual report year 2010-2017

Table 4. 6: Summary of Descriptive Statistics of Cost Leadership Strategy

	FExR	NPL	OPE	P
Mean	.18809	.02188	.30989	.09316
Minimum	.136	.014	.101	.028
Maximum	.227	.032	.751	.146
Std. Deviation	.028603	.005668	.225567	.043392
Std. Error of Mean	.010113	.002004	.079750	.015341
Kurtosis	.325	.309	.842	-1.198
Std. Error of Kurtosis	1.481	1.481	1.481	1.481
Skewness	-.540	.570	1.235	-.287
Std. Error of Skewness	.752	.752	.752	.752

Source: own computation

NPL measured used in this study by outstanding principal balance of loans past due more than 90 days to outstanding principal balance of loan. During the previous eight consecutive years (2010-20017) CBE has incurred 2.18% NPLs on averages from its total loan which is below the maximum requirement of 5% (National Bank of Ethiopia, 2008) and for comparison purpose of its spread the value of the standard deviation was 0.56 percent. NPL was ranged from 1.4 % to 3.2% the minimum and maximum value respectively. This means CBE incurred 3.2 cents of NPL for a single birr outstanding principal balance of loan. This implies the maximum NPL ratio of CBE is below 5% which the maximum tolerance point set by NBE but negatively affects it profitability.

Exchange rate shown that standard deviation was 2.86 %, mean value of 18.80% and minimum and maximum value revealed 13.6 and 22.7 respectively. Unlike NPL, exchange rate had higher standard deviation .This implies that the foreign exchange rate in Ethiopia during the study period remains highly unstable. Since the country's currency highly devaluated and during the period the banks client especially importers are highly disputed and failed to repay the required bank loan repayments.

The last variable taken as a cost leadership strategy measurement is operating expense was measured as the annual percentage change in the total operational expense of the last eight years (2010-2017) and this showed a mean of 30.98%. This indicates that, on average, growth rate was 30.98% during the eight years period and growth of total operating expense throughout the sample period were ranged from 10.10% to 75.10% with standard deviation of 22.55%. Unlike foreign exchange rate and NPL, operating expense rate had the highest standard deviation (22.556).This implies CBE's operational cost during the study period remains highly unstable and the bank was not cost efficient.

4.3.1 Preliminary Tests of Results

4.3.1.1 Normality Testing

Brooks (2008) explain that the normality assumption is required in order to conduct single or joint hypothesis tests about the model parameters. The most commonly applied tests for normality are *skewness* and *kurtosis*. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how flat the tails of the distribution are. A normal distribution is not skewed and is defined to have a coefficient of kurtosis between -3 and 3 (Brooks, 2008).

As shown in the table 4.7 above, the coefficient of kurtosis and skewness is in between -1.198 & 0.842 and -0.540 & 1.235 respectively which is in the range of -3 and 3. Hence, the null hypothesis

is the error term is normally distributed should not be rejected and it look like that the error term in all cases follows the normality assumption.

4.3.1.2 Multi- Colinearity Testing

Multi colinearity test helps to identify the correlation between explanatory variables and to avoid double effect of independent variable from the model. If an independent variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect colinearity. Correlation matrix between independent variables is presented in table 4.7

Table 4. 7 Multi-colinearity Test for Cost Leadership Strategy measurements

		FExR	OPE	NPL	P
FExR	Pearson Correlation	1			
OPE	Pearson Correlation	-.098	1		
NPL	Pearson Correlation	.724*	-.588	1	
P	Pearson Correlation	.965**	-.183*	-.729*	1

The result of correlation matrix in table 4.7 above indicates that there were no exact data correlations among the independent variables. This indicates that, there is no problem of multi colinearity in this study. We have perfect multi-colinearity if the correlation between two independent variables is equal to 1 or −1. More commonly, the issue of multi-colinearity arises when there is an approximate linear relationship among two or more independent variable (Belsley and David 1991).

4.3.1.3 Reliability Testing

The researcher has checked the validity and reliability of the data that collected from primary and secondary sources by using Cronbach's alpha-coefficient (α). Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group (Kimberlin and Winterstein, 2008). Hence, the reliability statistics for cost leadership strategy has been shown below.

Cronbach's Alpha	N of Items
.957	4

The alpha coefficient for the four items is .957, suggesting that the items have relatively high internal consistency because a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations (Bruin, J., 2006)

4.3.2 Correlation Analysis for Cost Leadership Strategy

Table 4. 8 : Correlation Analysis for Cost Leadership Strategy Measurements

Correlations					
		FExR	OPE	NPL	P
FExR	Pearson Correlation	1	-.098	.724*	.965**
	Sig. (2-tailed)		.818	.042	.000
OPE	Pearson Correlation	-.098	1	-.588	-.183*
	Sig. (2-tailed)	.818		.125	.664
NPL	Pearson Correlation	.724*	-.588	1	-.729*
	Sig. (2-tailed)	.042	.125		.040
P	Pearson Correlation	.965**	-.183*	-.729*	1
	Sig. (2-tailed)	.000	.664	.040	

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: Own Data Computation

4.3.2.1 Foreign Exchange Rate

Foreign exchange rate to be stable or instable in the country is the very determinant of one's company status whether to have strong competitive market position or weak position in global market. This study takes that the last ten years average annual exchange rate (in %) of the country in the study area of Commercial Bank of Ethiopia and analyzed its effect on profitability of the bank under the variable of cost leadership strategy practices.

As per the above empirical model correlation output in table 4.8, Foreign exchange rate has highly statistical significant and positive impact on profitability at 1% significance level. Foreign exchange rate goes up by one unit and profitability also goes up by 0.965 provided other independent variables are constant.

This indicates that when the value of Ethiopian birr depreciated in terms of dollar, it can increase the competitiveness export-oriented Ethiopian firms in the international market. This is the fact that, the

working cost of export-oriented Ethiopian firms was very less as compared to the international firms since the value domestic currency was very small in terms of foreign currency. Consequently, the debt-servicing capacity of export oriented Ethiopian firms would improve. In addition to this CBE lends for export purpose with lower interest rate than other loan providing services then the lower interest rate for export-oriented firms can make their debt servicing easier. This result supports Ethiopian Government policy by encouraging export-oriented firms and weakens the performance of import-oriented firms.

4.3.2.2 Non-Performing Loan

The increment of non-performing loan challenges the capacity of the bank to regulate its loan system efficiently and effectively. In this study, the researcher focused to analyze the level of NPL recorded in the bank and how it affects bank's profitability by taking the last eight years performance of commercial Bank of Ethiopia. As per the above empirical model correlation output in table 4.8, non-performing loan has a significant negative effect on profitability at 5% significance level. Non-performing loan rate goes up by one unit and profitability goes down by -0.729 provided other independent variables are constant. This indicates that the increment of the scale of non-performing loan of the bank negatively affects its growth of profitability rate. The finding also supported by the previous study conducted by Woo (2000), found that NPL affects the low cost position and profitability of banks.

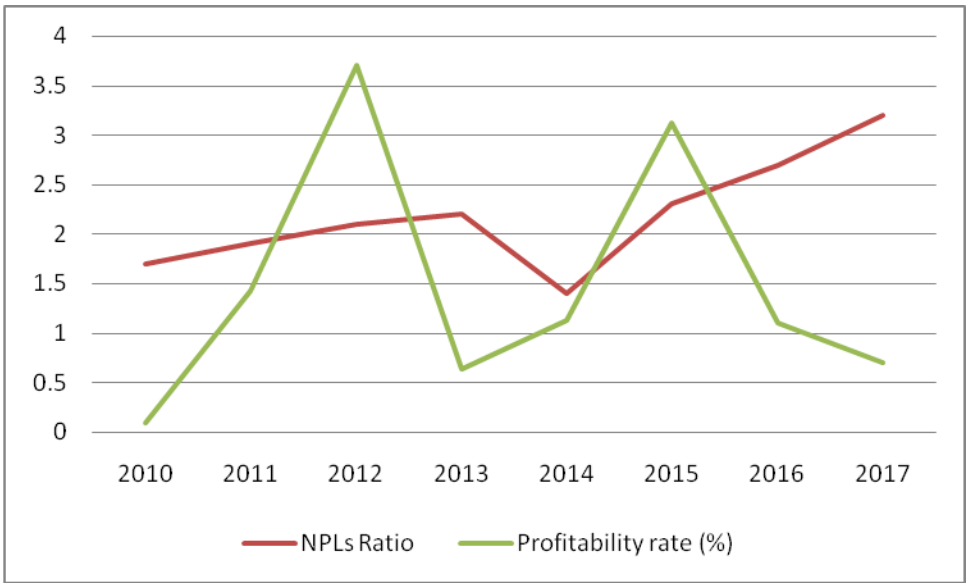
Table 4. 9 : Relationship between Non-Performing Loan and Profitability of CBE

Year	NPLs ratio	Profitability rate (%)
2010	1.7	0.09
2011	1.9	1.42
2012	2.1	3.70
2013	2.2	0.63
2014	1.4	1.12
2015	2.3	3.12
2016	2.7	1.10
2017	3.2	0.70

Source: CBE's Annual reports of year 2010-2017

N.B: NPLs Ratio=Total NPLS/outstanding loans and advance

Figure 4. 1 Graphics Presentation of the Relationship between NPL and Profitability



The graph sketched above, supports the correlation analysis result mentioned in table 4.8 indicated that NPL has a significant negative impact of profitability. That means when the rate of NPL increases, the rate of bank's profitability decreases and the reverse was true.

4.3.2.3 Operating Expenses

The objective of analyzing the operating expense of the bank was to determine its effect on profitability of the bank as a variable of cost leadership strategy. The researcher takes the last eight years operating expense data of the bank and the correlation result in table 4.8 show that operating expense has a significant and negative impact on profitability at 5% significance level. Operating expense rate goes up by one unit and profitability get down by -0.183 provided other independent variables are constant. This indicates that when the bank becomes cost inefficient, its profitability becomes decrease. The findings also supported by the previous studies suggest a positive and highly significant effect of cost efficiency on profitability (Alexiou and Sofoklis, 2009; and Pasiouras and Kosmidou, 2007).

4.4 Analysis of Differentiation Strategy Practices

The objective of this study was to determine the effect of differentiation strategy on profitability of commercial Bank of Ethiopia. Differentiation strategy is one of the three Porter's generic competitive strategies. In this study, differentiation strategy was measured by the extent to which a bank provides quality products/services to suit customer needs and preferences, a bank's brand

position in banking service market and implementation of banking technology to improve its services. These variables have been discussed and analyzed here below in table 4.10 based on results found in case summary of SPSS computation. The table includes the mean, minimum, maximum, standard deviation, Kurtosis and Skewness for the independent and dependent variables used in this research.

Table 4. 10 Summary of Descriptive Statistics of Differentiation Strategy

	BP	QPS	AFS	ATM	SBS	CLBS	P
Mean	22.60	22.60	23.00	23.00	27.75	22.80	23.00
Minimum	0	0	4	0	14	8	0
Maximum	48	65	50	46	50	40	60
Std. Deviation	22.323	26.463	18.111	16.688	15.756	13.590	23.345
Std. Error of Mean	9.983	11.835	8.099	7.463	7.878	6.078	10.440
Kurtosis	-2.983	1.192	.049	1.045	1.885	-2.140	1.212
Std. Error of Kurtosis	2.000	2.000	2.000	2.000	2.619	2.000	2.000
Skewness	.427	1.318	.769	-.013	1.355	.273	1.183
Std. Error of Skewness	.913	.913	.913	.913	1.014	.913	.913

Source: Own Data computation

As per the table 4.10 mentioned the mean value of brand position is 22.60 and standard deviation of 22.32. This shows brand position has higher value of standard deviation next to quality of product and service. This implies that the brand position Commercial Bank of Ethiopia occupies in the mind of its customers lacks consistence. The second variable of differentiation strategy which is quality of product/services has the highest value of standard deviation which is 26.63.This indicates the quality of product/ service provided by Commercial Bank of Ethiopia lacks soundness to meet customers' needs and preferences. The third variable of differentiation strategy taken in this study was technology advancement which can be measured by using automated financial services; convenient ATM service, developing secured banking system and providing visa card linked banking services to be integrated with other banks' customers. In the table 4.10 above show that the value of standard deviation is 18.111, 16.688, 15.756 and 13.590 respectively which indicates these technological advancement measurements had lower value of standard deviation unlike brand

position and product/service quality. This implies there was low fluctuation (consistencies) regarding to practicing these technology tools in commercial Bank of Ethiopia and the maximum values indicated in the table also show that there was high scale of implementation in the bank except CLBS with the maximum value of 40 that lower than other variables.

4.4.1 Preliminary Tests of Results

4.4.1.1 Normality Testing

As shown in the table 4.9 above, the coefficient of kurtosis and skewness is in between -2.983 & 1.885 and -0.886 & 1.355 respectively which is in the range of -3 and 3. Hence, the data used in this study is normally distributed and all cases follow the normality assumption.

4.4.1.2 Multi- Colinearity Testing

Table 4. 11 Multi-Colinearity Testing for Differentiation Strategy Variables

		BP	QPS	AFS	ATM	SBS	CLBS	P
BP	Pearson Correlation	1						
QPS	Pearson Correlation	.802	1					
AFS	Pearson Correlation	.666	.752	1				
ATM	Pearson Correlation	.766	.708	.875	1			
SBS	Pearson Correlation	.765	.962*	.894	.954*	1		
CLBS	Pearson Correlation	.406	.281	.834	.702	.449	1	
P	Pearson Correlation	.966*	.923*	.872	.924*	.996**	.526	1*

The result of correlation matrix in table 4.11 above indicates that there were no exact data correlations among the independent variables. This indicates that, there is no problem of multi collinearity in this study. We have perfect multi-collinearity if the correlation between two independent variables is equal to 1 or −1. More commonly, the issue of multi-collinearity arises when there is an approximate linear relationship among two or more independent variable (Belsley and David 1991).

4.4.1.3 Reliability Testing

Cronbach's Alpha	N of Items
.933	8

The alpha coefficient for the eight items above is 0.933, suggesting that the items have relatively high internal consistency. (Note that a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations.)

4.4.2 Correlation Analysis for Differentiation Strategy

Table 4. 12: Correlation Analysis of differentiation strategy measurements

Correlations								
		BP	QPS	AFS	ATM	SBS	CLBS	P
BP	Pearson Correlation	1	.802	.666	.766	.765	.406	.966*
	Sig. (2-tailed)		.103	.220	.131	.235	.498	.057
	N	5	5	5	5	4	5	113
QPS	Pearson Correlation	.802	1	.752	.708	.962*	.281	.923*
	Sig. (2-tailed)	.103		.142	.181	.038	.648	.025
	N	5	5	5	5	4	5	113
AFS	Pearson Correlation	.666	.752	1	.875	.894	.834	.872
	Sig. (2-tailed)	.220	.142		.052	.106	.079	.054
	N	5	5	5	5	4	5	115
ATM	Pearson Correlation	.766	.708	.875	1	.954*	.702	.924*
	Sig. (2-tailed)	.131	.181	.052		.033	.186	.025
	N	5	5	5	5	4	5	115
SBS	Pearson Correlation	.765	.962*	.894	.954*	1	.449	.996**
	Sig. (2-tailed)	.235	.038	.106	.033		.551	.004
	N	4	4	4	4	4	4	113
CLBS	Pearson Correlation	.406	.281	.834	.702	.449	1	.526
	Sig. (2-tailed)	.498	.648	.079	.186	.551		.362
	N	5	5	5	5	4	5	114

P	Pearson Correlation	.966*	.923*	.872	.924*	.996**	.526	1*
	Sig. (2-tailed)	.057	.025	.054	.025	.004	.362	
	N	5	5	5	5	4	5	115

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Source: Own Data computation

4.4.2.1 Brand Position

As per the above empirical model correlation output, brand position has a statistical significant effect and positive impact on profitability at 5% significance level. Brand position goes up by one unit and profitability also goes up by 0.966 provided other independent variables are constant. This indicates that, brand position had a very strong positive impact on profitability of Commercial Bank of Ethiopia. The result also suggests that having strong brand position is the most important factor for growth of profitability of CBE. Additionally, there are significant empirical evidence of positive association between brand position and profitability (Akhtar, Xicang and Iqbal, 2017).

4.4.2.2 Product and Service Quality

As per the two tailed correlation result it is observed that, product/service quality has a statistical significant effect and positive impact on profitability at 5% significance level. Product/service quality goes up by one unit and profitability also goes up by 0. 923 provided other independent variables are constant. This indicates that, product/service quality had a very strong positive impact on profitability. The result also suggests that providing quality product and service is the most important factor for growth of profitability. The finding also supported by the previous study conducted by Lewis (1993), Hall (1995) and Morrall (1994) found that product/service quality creates a substantial positive association with profitability.

4.4.2.3 Technological Advancement

Automated Financial Service

As per the correlation analysis result in table 4.12 above, it is observed that automated financial service has a positive relationship with profitability. When automated financial service goes up by one unit and profitability also goes up by 0. 872 provided other independent variables are constant. However, this relationship not lay on at a significant level of either 1% or 5% correlation coefficient.

Hence, this means that automated financial service has no significant effect on profitability of commercial Bank of Ethiopia.

Convenient ATM Service

The products and services offered by banks are very similar in the industry, but the differentiator is the level of customer service and how customers perceive it. It is therefore critical that banks offer quick and quality customer service to enhance customer satisfaction and profitability. The ability of a bank to offer convenient banking hours largely influences customer engagement since today's customer is busy and needs flexibility. Convenient ATM service is one of the important factors to provide convenient service in order to enhance banks performance and profitability. As per the two tailed correlation result it is observed on table 4.12, Convenient ATM service has a statistical significant effect and positive impact on profitability at 5% significance level. Convenient ATM service goes up by one unit and profitability also goes up by 0. 924 provided other independent variables are constant. This indicates that, convenient ATM service had a very strong positive impact on profitability of Commercial Bank of Ethiopia. The finding also supported by the previous study conducted by Obasan Kehinde Agbolade has studied the effects of Technology in Nigeria banks and confirmed that Information and communication Technology has a substantial positive effect on bank's profitability. This implies that a marginal change in the level of the investment and adoption of ICT in the banking industry will result to a proportionate increase in the profit level (Obasan, 2011). Additionally, the finding also supported by the previous study conducted by Jean Bosco Harelimana (2018) confirmed that the hypothesis of there is a significant relationship between automated teller machines and profitability of Bank of Kigali where the finding shows that the correlations between ATM and ROA.

Secured Banking System

There are some information security threats and risks associated with the use of online banking systems. The confidentiality, privacy and security of internet banking transactions and personal information are the major concerns for both the banking industry and internet banking. Attacks on online banking today are based on deceiving the user to steal login data. Phishing, pharming, Cross-site scripting, adware, key loggers, malware, spyware, Trojans and viruses are currently the most common online banking security threats and risks. The findings of this study show in two tailed correlation analysis on table 4.12 indicated that, Secured banking system has highly statistical significant and positive impact on profitability at 1% significance level. Secured banking system

goes up by one unit and profitability also goes up by 0. 996 provided that other independent variables are constant. The coefficient signs of Secured banking system show that, it has a positive impact on profitability of Commercial Bank of Ethiopia.

Visa Card Linked Banking Service

As per the correlation analysis result in table 4.12 above, it is observed that visa card linked banking service has a positive relationship with profitability. When visa card linked banking service goes up by one unit and profitability also goes up by 0. 0.525 provided that other independent variables are constant. However, this relationship not lay on at a significant level of either 1% or 5% correlation coefficient. Hence, visa card linked banking service has no significant effect on profitability of commercial Bank of Ethiopia.

4.5 Analysis of Focus Strategy Practices

The objective of the study was to establish the effect of focus strategy on profitability of Commercial Bank of Ethiopia. Commercial banks target to attend to specific small niches that require special features or prices so as to enhance customer satisfaction and their profitability. In this study, focus strategy was measured by the extent to which a bank focuses on interest free banking to address the Muslim community and other customers who don't want to be paid interest from their deposit and focuses of the bank to practice digital banking (online banking or e-banking) services

Table 4. 13 : Summary of Descriptive Statistics of Focus Strategy

	IFB	eBanking	P
Mean	22.60	23.00	23.00
Minimum	5	10	0
Maximum	50	58	62
Std. Deviation	17.994	20.100	25.436
Std. Error of Mean	8.047	8.989	11.375
Kurtosis	.205	2.949	.042
Std. Error of Kurtosis	2.000	2.000	2.000
Skewness	.960	1.957	1.096
Std. Error of Skewness	.913	.913	.913

Source: Own Data computation

As per the table 4.13 mentioned the mean value of IFB is 22.60 and standard deviation of 17.994. This shows IFB has lower value of standard deviation than e-banking. This indicates that IFB

services of Commercial Bank of Ethiopia gets soundness. The second variable of focus strategy which is digital banking services has higher value of standard deviation which is 20.10. This indicates the focus of CBE on practicing digital banking service lacks soundness to meet customers' needs and preferences.

4.5.1 Preliminary Tests of Results

4.5.1.1 Normality Testing

As shown in the table 4.13 above, the coefficient of kurtosis and skewness is in between 0.042 & 2.949 and 0.960 & 1.957 respectively which is in the range of -3 and 3. Hence, the data used in this study is normally distributed and all cases follow the normality assumption.

4.5.1.2 Multi- Colinearity Testing

Table 4. 14 Multi-Colinerity Test for Focus Strategy Variables

		IFB	eBanking	P
IFB	Pearson Correlation	1		
eBanking	Pearson Correlation	.946*	1	
P	Pearson Correlation	.803	.881*	1

The result of correlation matrix in table 4.14 above indicates that there were no exact data correlations among the independent variables. This indicates that, there is no problem of multi collinearity in this study. We have perfect multi-collinearity if the correlation between two independent variables is equal to 1 or −1. More commonly, the issue of multi-collinearity arises when there is an approximate linear relationship among two or more independent variable (Belsley and David 1991).

4.5.1.3 Reliability Testing

Cronbach's Alpha	N of Items
.942	3

The alpha coefficient for the four items is .942, suggesting that the items have relatively high internal consistency. (Note that a reliability coefficient of .70 or higher is considered "acceptable" in most social science research situations.)

4.5.2 Correlation Analysis for Focus Strategy

Table 4. 15: Correlation Analysis of Focus strategy measurements

Correlations				
		IFB	eBanking	P
IFB	Pearson Correlation	1	.803	.946*
	Sig. (2-tailed)		.015	.101
	N	115	115	115
eBanking	Pearson Correlation	.946*	1	.881*
	Sig. (2-tailed)	.015		.049
	N	115	115	115
P	Pearson Correlation	.803	.881*	1
	Sig. (2-tailed)	.101	.049	
	N	115	115	115

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

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

Source: Own Data computation

4.5.2.1 Interest Free Banking (IFB)

As per the above empirical model correlation output show in table 4.15 above, IFB has a statistical significant effect and positive impact on profitability at 5% significance level. IFB goes up by one unit and profitability also goes up by .946 provided that other independent variables are constant. This indicates that, IFB had a very strong positive impact on profitability of Commercial Bank of Ethiopia. This means when the bank provides Interest Free Banking for customers those who don't want to be paid interest fee, the bank can attract them more to deposit their money and then bank's profitability can be increased.

4.5.2.2 Digital Banking

As per the above empirical model correlation output show in table 4.15, e-banking has a statistical significant effect and positive impact on profitability at 5% significance level. E-banking goes up by one unit and profitability also goes up by 0.881provided other independent variables are constant.

This indicates that, e-banking had a very strong positive impact on profitability of Commercial Bank of Ethiopia. This means when the bank focuses on investing the online banking services, customers can do access the bank's services more and that able to increase its performance by achieving the target of profitability . The finding also supported by the previous study conducted by Siam (2006) examined that the effect of e- banking in bank profitability in Jordan. The results were a correlation with statistical significance between the impacts of electronic banking in banks profitability as a negative effect in the short run and a positive effect on the long run.

4. 6 Hypothesis Testing

The overall mean of the three aspects of the independent variables (differentiation strategy, cost leadership strategy and focus strategy) and the dependent variable (Profitability) was obtained of all the 115 respondents

H_1: There is significant effect of cost leadership strategy on CBE's profitability.

In this study, the effect of cost leadership strategy was measured by foreign exchange rate, non-performing loan and operating expense the bank facing to achieve its target of profitability.

H_1 a, There is a significant effect of foreign exchange rate on profitability

The correlation analysis result in table 4.8 indicates that there was a significant and positive effect of foreign exchange rate on profitability of Commercial Bank of Ethiopia ($r=0.965$, $P<0.01$). Therefore, the hypothesis (H_1 a) has been accepted and realized that foreign exchange rate had highly significant positive effect on profitability at 1% significant level.

H_1 b, There is a significant effect of non-performing loan on profitability

The correlation analysis result indicates that there was a significant but negative effect of non-performing loan on profitability of Commercial Bank of Ethiopia ($r= -0.729$, $P<0.05$). Therefore, the hypothesis (H_1 b) has been accepted and realized that non performing loan had significant negative effect on profitability at 5% significant level.

H_1 c, There is a significant effect of operating expense on profitability

The correlation analysis result indicates that there was a significant but negative effect of operating expense on profitability of Commercial Bank of Ethiopia ($r= -0.183$, $P<0.05$). Therefore, the hypothesis (H_1 c) has been accepted and realized that operating expense had significant negative effect on profitability at 5% significant level.

Therefore, the hypothesis (H_1) realized that there was a significant effect of cost leadership strategy on profitability in Commercial Bank of Ethiopia.

These results were consistent with other studies that show a significant relationship between cost leadership strategy and profitability. Thomas and William (2004) analyzed the findings that competitive methods in the banking industry correspond to Porter's generic strategy types and that a cost leadership strategy provides a statistically significant performance on profitability over banks that are stuck-in-the-middle.

H_2. There is significant effect of differentiation strategy on CBE's profitability.
In this study, the effect of differentiation strategy was measured by quality of products and services provides by the bank, a bank's brand position having in banking sector and use of up-to-date Banking technology to improve its services.

H_2 a, There is a significant effect of brand position on profitability
The correlation analysis shown in Table 4.12, indicated that there was a significant and positive effect of brand position on bank's profitability ($r= 0.966$, $P<0.05$) .Therefore, the hypothesis (H_2 a) has been accepted and realized that brand position had significant positive effect on profitability at 5% significant level

H_2 b, There is a significant effect of product/service on profitability
The correlation analysis result show that there was a significant and positive effect of quality of product /services on bank's profitability ($r=0.923$, $P<0.05$). Therefore, the hypothesis (H_2 b) has been accepted and realized that product/services quality had significant positive effect on profitability at 5% significant level.

H_2 c, There is a significant effect of technology advancement on profitability
The correlation analysis also shows that the effect of implementation of technological advancement measured by convenient ATM ($r=0.924$, $P<0.05$) and Secured banking system($r=0.996$, $P<0.01$) had a significant and positive effect on CBE's profitability. Therefore, the hypothesis (H_2 c) has been accepted in terms of ATM and secured banking system and these results are consistent with other studies (Adeoti, 2005 and Obasan, 2011). However, Automated Financial Services and Card-linked banking services which were the measurement of technological implementation in CBE as variables of differentiation strategy had no significant effect on profitability of the bank.

To sum up, the effort to provide quality of product/services, convenient ATM service, secured banking system and having strong brand position significantly and positively influence CBE's profitability. However, automated financial service and visa card linked banking service were not having a significant effect on CBE's profitability.

H_3. There is significant effect of focus strategy on CBE's profitability.

In this study, the effect of focus strategy was measured by Interest Free Banking and e-banking service.

H_3 a, There is a significant effect of interest free banking on profitability

The correlation analysis shown in Table 4.15, indicated that there was a significant and positive effect of interest free banking on bank's profitability ($r= 0.946$, $P<0.05$);Therefore the hypothesis (H_3 a) had been accepted and realized that interest free banking had significant and positive effect on profitability at 5% significant level.

H_3 b, There is a significant effect of digital banking service on profitability

The findings show that there was a significant and positive effect of e-banking service on bank's profitability ($r=0.881$, $P<0.05$); Therefore the hypothesis (H_3 b) had been accepted and realized that interest free banking had significant and positive effect on profitability at 5% significant level.

This could imply that the effort to provide IFB and e-Banking services significantly and positively influences CBE's profitability. Therefore, the hypothesis (H_3) realized that there was a significant and positive effect of focus strategy on profitability in Commercial Bank of Ethiopia. These results are consistent with other studies that show a significant and positive correlation between focus strategy and Profitability (Richardson and Dennis, 2003; Spanos, Zaralis and Lioukas 2004; Hahn and Powers, 2010)

Chapter Five: Summary, Conclusion and Recommendation

After analyzed the result of the regression based on the collected data, the following summaries, conclusion and recommendations were made. The responses were based on the objectives of the study. The present study had intended to determine the relationship between cost leadership strategies and profitability, differentiation strategies and profitability and focus strategies and profitability of Commercial Bank of Ethiopia. This chapter also indicates the intended directions to study for the next researchers.

The research questions addressed in this study were:

- What is the effect of cost leadership strategy on profitability?
- What is the effect of differentiation strategy on profitability?
- What is the effect of focus strategy on profitability?

5.1 Summary

For survival in today's competitive banking environment, banks shall develop and implement competitive marketing strategies to have a competitive strategy in the market of banking service. The study focuses on analyzing the effects of Porter's Generic Competitive Strategies (Cost Leadership, Differentiation and Focus Strategies) of the profitability Commercial Bank of Ethiopia.

The findings indicated that there was a significant relationship between cost leadership strategy and profitability which was measured by foreign exchange rate, operating expense and non-performing loan as cost leadership strategies variables. This indicates that when the bank has low foreign exchange rate in terms of dollar, the working cost of export-oriented Ethiopian firms would be very less as compared to the international firms. Consequently, CBE can lend for export purpose with lower interest rate than other loan providing services then the lower interest rate for export-oriented firms can make their debt servicing easier and then this makes the bank's profitability to be increased. The findings also indicate that there was a significant and negative relationship between operating expense and profitability. It indicates that when CBE's operating expense increase, the bank puts itself at high cost position (becoming cost inefficiency) results for the low rate of profitability. Regarding to NPL, there was a significant but negative effect on profitability of the bank. This indicates that the increment of the scale of non-performing loan of the bank negatively affects its growth of profitability rate because NPL would be registered as a loss for the bank.

Based on the findings it can also be indicated that there was a significant positive relationship between differentiation strategy and profitability of CBE in terms of brand position and quality of products/services. This means the bank is striving to provide quality products/services and developed strong brand position the market of banking service to enhance its profitability. The findings regarding technical variables indicates that the effect of technological advancement measured by convenient ATM($r=0.924$, $P<0.05$) and Secured banking system($r=0.996$, $P<0.01$) had a significant and positive effect on CBE's profitability. This means the bank enhances its customers' perception and confidence to get convenient banking services through convenient d ATM service; the bank can assure the security of banking transaction; engagement of its customer increases and then its target of profitability becomes to be realized. However, Automated Financial Services and Card-linked banking services which were the measurement of technological implementation of CBE had no a significant effect on profitability of the bank. This indicates that even if they have a positive relationship with profitability as indicated in table 4.12, they had insignificant impact on profitability of CBE

It can also be indicated that there was a significant effect of focus strategy and profitability of Commercial Bank of Ethiopia. There was a significant and positive effect of IFB and e-banking on bank's profitability ($r= 0.946$, $P<0.05$) and ($r=0.881$, $P<0.05$) respectively. This could imply that the banks effort to provide IFB and e-Banking services positively influences CBE's profitability.

5.2 Conclusion

The findings indicated that foreign exchange rate had a positive relationship against with the CBE's profitability. A unit increase in exchange rate in the country would lead to increase in profitability of Commercial Bank of Ethiopia by factor of 0.965 and this indicates that when the value of Ethiopian birr depreciated in terms of USD, it can increase the competitiveness of CBE in the international market and reduce the problem of hard currency. Non-performing loan had a negative relationship against with the CBE's profitability. A unit increase in NPL would lead to decrease in profitability of Commercial Bank of Ethiopia by factor of -0.729 and this supported by Woo (2000). Operating expense had a negative relationship against with the CBE's profitability. A unit increase in operating expense would lead to decreasing in profitability of Commercial Bank of Ethiopia by factor of -0.183 and this indicates that when CBE's operating expense increase, the bank puts itself at high cost position (becoming cost inefficiency) results for the low rate of profitability. This supported previous studies by (Akhtar, Xicang and Iqbal, 2017; Hall, 1995 and Morrall, 1994). Hence, it can

be concluded that there was a significant effect of cost leadership strategy on profitability of Commercial Bank of Ethiopia.

The findings indicated that brand position had a positive relationship against with the CBE's profitability. A unit increase in brand position would lead to increase in profitability of Commercial Bank of Ethiopia by factor of 0.966. Product/service quality had also a significant and positive impact on profitability. A unit increase in product quality would lead to increase in profitability of Commercial Bank of Ethiopia by factor of 0.923. Convenient ATM and secured banking system as a measurement of technology advancement had a positive relationship against with the CBE's profitability by a factor of 0.924 and 0.996 respectively. However, automated financial service and visa card linked banking services had no significant relationship with profitability of CBE. Hence, it can be concluded that there was a significant effect of differentiation strategy on profitability of Commercial Bank of Ethiopia except automated and visa card linkage which taken as requirements of technological advancement.

The findings indicated that interest free banking had a positive relationship against with the CBE's profitability. A unit increase in IFB would lead to increase in profitability of Commercial Bank of Ethiopia by factor of 0.946 and e-banking (digital banking) had also a positive relationship with profitability commercial bank of Ethiopia by a factor of 0.881.Hence, we concluded that there was a significant effect of focus strategy on profitability of Commercial Bank of Ethiopia.

Finally it could be concluded that Commercial Bank of Ethiopia has been practicing all types of generic competitive strategies but dominantly practicing cost leadership strategy because the cost factors studied are performing practically more than other strategies in the bank.

5.3 Recommendation

Commercial Bank of Ethiopia should minimize the rate of non- performing loans by providing loans to applicants;

- First with consideration of the character, capital, capacity, collateral and condition of the loan applicants;
- Second, providing not for applicants they have bad reputation of loan default.
- Third, proper schedule of down payments and minimizing the political interference.

Commercial Bank of Ethiopia is needed to establish and implement differentiation strategies especially should be advanced in banking technology such as enhancing digital banking services.

This study was conducted on commercial bank of Ethiopia which is the government own bank, it is therefore recommended that similar studies be carried out in private commercial banks in Ethiopia for comparison purposes. Similar research studies should also be conducted in other economic sectors.

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Annex I: Questionnaire

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF COMMERCE

DEPARTMENT OF MARKETING MANAGEMENT

POST GRADUATE PROGRAM

Questionnaires to be filled by CBE's marketing department employees

Dear respondent,

My name is Gobezie Endayehu, a post-graduate student pursuing MA Degree in Marketing Management in the College of Business and Economics, Department of Marketing Management, Addis Ababa University. I am conducting a study for the partial fulfillment of a master's degree to identify the effects of generic competitive strategies on profitability of Commercial Bank of Ethiopia.

For the success of this study, your genuine and timely response on designed questionnaire will have a paramount importance. It is assumed that the questionnaire will take only a few of your time to complete.

All information provided will be used for academic purpose ONLY and will be treated in strict CONFIDENTIALITY. I kindly request your utmost cooperation in filling the questionnaire and return it as soon as possible. I am grateful for your kind cooperation and would like to extend my heartfelt appreciation, in advance, for providing me all the relevant information regarding your bank.

General Instruction

- Please don't write your name or address on the questionnaire
- Please put a tick"√" mark in the appropriate box of your answer.
- If you would like further clarification and information about the study, or have any problem in completing the questionnaire please contact me via 0930011720 Email: gobezendayehu@gmail.com

Section I: General Information

a) Sex: Male ☐ Female ☐

b) Education level

Certificate ☐ Fist degree ☐

Diploma ☐ Second degree and above ☐

c) Position held in the bank

Junior Officer ☐ Manager ☐

Senior Officer ☐ Director ☐ Other _____

d) How long have you been working in your current position?

Below one year ☐ 4-6 years ☐

1-3 years ☐ above 6 years ☐

Section II: Generic Competitive Strategies Practices in CBE

Questions mentioned below in the table are related with generic competitive strategies practice in CBE. Please put a tick (√) mark to indicate your answer. Use the scale of 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree and 5=Strongly Agree

S. N	Statements	1-Strongly Disagree	2-Disagree	3- Neutral	4- Agree	5- Strongly Agree
	Differentiation Strategy					
1.	CBE has occupied strong brand position					
2.	CBE Provides quality Product and services for customers					
3.	CBE Automated Financial Services					
4.	CBE has Upgraded ATMs					
5.	CBE has Secured banking systems					
6.	CBE practiced Card-linked banking service to make partnership with other banks' customers.					
	Focus Strategy					
7.	CBE focuses on Interest Free Banking for Muslim community					
8.	CBE focuses on e-banking services like Mobile and Internet banking					
	Cost Leadership Strategy					
9.	CBE has stable foreign exchangerate					
10.	CBE has low NPL					
11.	CBE has low oprating expense					
12.	Differentiation strategy affects CBE's profitability.					
13.	Focus strategy affects CBE's profitability.					
14.	Cost leadership strategy affects CBE's profitability.					