



**COLLEGE OF BUSINESS AND ECONOMICS**

**SCHOOL OF COMMERCE**

**DEPARTMENT OF MARKETING MANAGEMENT**

**THE ROLE OF PRODUCT DIFFERENTIATION STRATEGIES ON  
COMPETITIVENESS OF BANKING INDUSTRY ETHIOPIA IN:**

**CASE STUDY OF COMMERCIAL BANK OF ETHIOPIA**

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**A thesis submitted to the school of graduate studies of Addis Ababa  
University in partial fulfillment of the requirements for the degree of  
MA in Marketing Management in School of Commerce**

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**JUNE, 2022**

**Addis Ababa, Ethiopia**

## **Statement of Certification**

This is to certify that Zerihun Mamo has carried out his research work on the topic entitled **“THE ROLE OF PRODUCT DIFFERENTIATION STRATEGIES ON COMPETITIVENESS OF BANKING INDUSTRY ETHIOPIA: CASE STUDY OF COMMERCIAL BANK OF IN ETHIOPIA”** is his original work and is suitable for submission for the award of Master’s Degree in Marketing Management.

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Advisor: Dr. Saleamlk Molla

May, 2014

**THE ROLE OF PRODUCT DIFFERENTIATION STRATEGIES ON  
COMPETITIVENESS OF BANKING INDUSTRY ETHIOPIA:  
CASE STUDY OF COMMERCIAL BANK OF IN ETHIOPIA**

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## **Declaration**

I certify that this research paper entitled “The Influence of Service Quality and Passenger Satisfaction on Behavioral Intention: the case of Ethiopian Airlines” has not previously been submitted for a degree nor has it been submitted as part of requirements for a degree. I also certify that the thesis/project has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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## **Acknowledgment**

First of all, may all praise be to God for giving me the strength, patience and guidance to endure and complete this project. I would also like to express my appreciation to Dr. Saleamlak Molla my advisor, for his invaluable comments encouragement, and expert guidance during the whole process of research writing.

I also wish to thank all my instructors who have been incredibly supportive and collaborative over the last few years.

Last but not the least, my special thanks goes to commercial bank of Ethiopia staff at all levels that assisted me in doing the research. Especial thanks to commercial bank of Ethiopia economic research department staffs for their respective cooperation during questionnaire distribution and collection.

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## ***Abstract***

*Banking Industry is the growing Industry in Ethiopia which has stiff competition. Telecommunication Industry is also entering the market. For the long run survival of the Banking industry, strategies on how to operate in this dynamic environment are of vital important. Commercial banks in Ethiopia have come to realize that in order to provide value and win customers, there is a need to quickly and accurately identify changes in customer needs, design and develop more complex products which would satisfy those needs, provide higher levels of customer support and service. The study sought to fill the existing knowledge gap by establish influence of product differentiation strategies in achieving competitive advantage in commercial bank of Ethiopia. This research adopted a descriptive survey research design. The target population of this study was 574 supervisor staffs working at commercial bank of Ethiopia. The study adopted random sampling which was used to select the sample size of 254 respondents. The study used a semi structured questionnaire to collect primary data. The questionnaire was made of close ended items. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data presentation was done by the use of bar charts and graphs, and frequency tables to ease understanding and interpretation of the data. Regression analysis helped the study establish the statistical significance of influence of product differentiation in achieving competitive advantage in commercial banks.*

*Findings show that, there is significance relationship between variables (cost, market, distribution channel and product process differential) to competitive advantage, hence product differentiation strategy has a positive contribution to competitive advantage. Some of the recommendations are that commercial banks should adopt effective process of delivering financial product such as through agency banking, mobile phone banking, use of RTGS and internet banking distribution channels, POS payment & international gateway payments, use of retail network (branches) ATM and mobile banking distribution channels.*

**Keywords:** *Product Cost Differentiation, Market, Process, Distribution, Strategy Competitive Advantage*

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the study**

Everything evolves in a globalized world, including the business environment, so businesspeople must make significant efforts to keep up with these changes. According to Spencer, Joiner, and Salmon (2009), intense competition in domestic and international markets, more demanding and confident customers, and rapid technological advancements due to the internationalization of business have put greater pressure on organizations, they seek new ways to achieve sustainable development to have a competitive advantage in their industry. The main focus of competitive strategy is the company's relative position in the industry, which indicates whether its profitability is above or below the industry average. Gaining a competitive position and improving a company's performance relative to its competitors are two of the main goals that business organizations should strive to achieve. In order to gain a competitive advantage that matches or surpasses business competitors, business organizations must first understand the relationship between strengths and weaknesses within their organization, and the potential impact on the company's competitive advantage and performance. Strengths, Weaknesses, Opportunities and Challenges (SWOC) analysis are crucial in dealing with different changes. Due to the development of technology, consumers can easily obtain information about products, which allows customers to easily understand the broad knowledge of different products and their similarities and differences. For organizations to maintain and increase sales levels under these dynamic conditions, they must be very strategic at every step of the business life cycle. Business personnel should not be afraid to compete in the market or see the threat of changing environment to their business; otherwise their business will be affected in the same way. Strategic management is seen as a set of decisions and actions that lead to the formulation, implementation, and control of plans that aim to achieve the organization's vision and mission, strategy, and goals in the business environment in which it operates (Pearce & Robinson, 2007). Strategy Implementation is an integral part of the strategic management process, which is regarded as a process of transforming the formulated strategy into a series of actions to ensure

that the mission, vision, strategy and strategic goals of the organization are successfully realized as planned.

Michael Porter (2004) Considered the father of strategic management proposed three general strategies that provide a good starting point for strategic thinking. Overall cost leadership, differentiation and focus. Michael Porter believes that to achieve long-term success, companies must choose only one of these three general strategies. Otherwise, if multiple single common strategies are adopted, the company will be "sandwiched" and will not be able to gain a competitive advantage. Porter believes that companies that can succeed in multiple strategies usually achieve this goal by creating separate business units for each strategy. By dividing the strategy into different departments with different policies and even different cultures, the company is unlikely to be "sandwiched" Kotler (2009).

The competition of banks in Ethiopia against each other will provide great services for their customers otherwise people will switch to another better bank. This makes banks more efficient and productive, which is good for the economy. Competition forces banks to deploy corporate-level as well as market-level strategies, enabling them to avoid switching costs. Commercial banks in Ethiopia have come to realize that in order to provide value and win customers, there is a need to quickly and accurately identify changes in customer needs, design and develop more complex products which would satisfy those needs, provide higher levels of customer support and service. Commercial bank of Ethiopia has engaged in product designing and development. Various financial products are designed to suit different categories of customers in Ethiopia. The Banks use strong and persuasive marketing communication efforts to promote its products focus on difference in quality of service and lower charges levied by various products. This is why the research requires evaluation of the contribution of product differentiation strategies to the level of product differentiation s reason. The researcher conducted a research in commercial bank of Ethiopia, which has many different products to increase satisfaction with different types of customers.

## **1.2 Statement of the Problem**

In the contemporary competitive market, firms that build distinctive and inimitable products develop competitive advantage which positions such firms for enhanced performance than

competing rivals (Raduan, et al., 2009). This indicates that a firm's strategy to optimize performance can be achieved through differentiation of product(s) or services from similar ones offered by competitors, or by ensuring cost efficient manufacturing (Spencer & Salmon, 2009).

Differentiation strategies adopted by firms' are often focused on offering customers unique products and value different from that of competitors (Okeke & Ugwuegbu, 2018). The dominant perception behind a differentiation strategy is customers' preparedness to pay more for the perceived value offered in the product that differentiates it from that of competitors (Dirisu, Iyiola & Ibidunni, 2013). However, regardless of the differentiation strategy adopted by firms, the strategy should be based on customers' needs and the competitor's core competence (Hitt, Ireland & Hoskisson, 2012). Differentiation is a strategy which seeks to provide products or services with inimitable or better benefits widely valued by buyers than that of a firm's competitors' and central to a firm gaining competitive advantage (Johnson, Scholes & Whittington, 2008). In adopting a differentiation strategy, firms are faced with product, price, channel, variety and package (image) differentiation strategies (Kotler & Keller, 2014). Today's banking industry faces fierce competition in a new deregulated environment (Reynolds, 2005). A successful product differentiation strategy will bring outstanding performance and competitive advantage (Porter, 2004). The ability of an enterprise to obtain a competitive advantage depends on the sustainability of its competitive advantage relative to other participants in the same industry. The rapidly changing environment of today's increasingly fierce market competition and increasing innovation rate, coupled with the pressure of the global knowledge economy, has made companies realize that product differentiation strategies are their key assets (Snyman & Kruger, 2004). Locally, there have been studies to establish the link between competitive strategy and competitive advantage. Hailemariam (2018) conducted a study on the concentration and competition of the Ethiopian banking industry. From my reading there is no research has specifically focused on the impact of product differentiation strategies on the realization of competitive advantages in Ethiopia's banking industry. Therefore, the research aimed to fill the existing gap by establishing the effect of product differentiation strategy in achieving competitive advantage.

### **1.3 Research questions**

- What is the role of product cost differentiation in achieving competitive advantage?
- What is the role of product distribution channels in achieving competitive advantage?
- What is the role of product market differentiation in achieving competitive advantage?
- What is the role of product process differentiation in achieving competitive advantage?

### **1.4 Objectives of the study**

#### **1.4.1 General Objective**

To assess the role of product differentiation strategy on competitions in Banking Industry in Ethiopia.

#### **1.4.2 Specific Objective**

To study the role of product cost differentiation in achieving competitive advantage in commercial bank of Ethiopia;

To study the role of product distribution channels in achieving competitive advantage in commercial bank of Ethiopia;

To study the role of product market differentiation in achieving competitive advantage in commercial bank of Ethiopia.

To study the role of product process differentiation in achieving competitive advantage at commercial bank of Ethiopia.

### **1.5 Significance of the study**

The findings of this study will have a great deal of importance/significance for banking industry to understand contribution of differentiated products in achieving competitive advantage which will help to discover the areas of improvement where needed. Help improve competitive advantages of banks, expand market and survival in the market. Finally, it will create fertile ground for the scholars for further study.

## **1.6 Scope of the study**

### **1.6.1 Conceptual Scope**

The banking area provides a wide range of study areas for researchers. But this research only be limited to study the role of product differentiation on competitive advantage.

### **1.6.2 Geographical Scope**

Currently in Ethiopia 20 banks are giving banking services for their customers, out of which 2 are state owned and the remaining are privately owned. Due to time, financial, and other limitations, the researcher is only limited to study at Commercial Bank of Ethiopia, that are located in Addis Ababa.

### **1.6.3 Time Scope**

The data that were collected to make the required study were collected from 2019/20 to 2021/22.

## **1.7 Limitations of the study**

This research confronted from three major limitations while making the study. First the findings of this research were generalized to only the banking industry. The second limitation of this study was its difficulty to assess impact of other strategies, it was restricted only to product differentiation. The third limitation of the study was respondents has become reluctant to fill questionnaires particularly open ended Questions because of lack of time and willingness.

## **1.8 Organization of the Study**

The research paper is organized into five major chapters. The first part is an introductory part composed of background of the study, research problem and questions, Research Objectives, Significance of the Study, Scope of the study, and limitation of the study. The second chapter deals with Review of Related Literature, the third chapter discusses the research design and Methodology, The fourth chapter is about data analysis and discussion and fifth chapter summarizes of major findings, conclusions and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Under this Chapter, the study is going to give comprehensive understanding about Contribution of Product differentiation strategy on competitiveness in Banking Industry referring theoretical, conceptual and empirical literature review that obtain from various sources in relation to the research questions.

#### **2.2. Theoretical Review of the study**

Theory plays a vital role in the research process. It is not only an important source for the generation of problems and hypothesis, but, just as important, the meaning and significance of key concepts can only be interpreted within the context of a theory. Theoretical systems combine taxonomies and conceptual framework by relating descriptions, explanations and predictions in a systematic manner. A theoretical system is comprised of propositions that are interrelated in a way that permits some prepositions to be derived from others. A theoretical system, such as Durkheim's, provides a structure for an inclusive explanation of empirical phenomenon; its scope is not limited to one particular aspect of the event to be explained. A theoretical system also consists of a set of propositions. However, contrary to their status within a conceptual framework, these propositions form a deductive system. The theoretical framework refers to a structure of concepts that exists (tested) and is a ready-made map for a study. It consists of theories, principles, generalizations and research findings which are closely related to the present study under investigation. It is in this framework where the present research problem understudy evolved. Faced with competition, water companies are developing strategies for competitiveness and survival such as management of corporate identity in order to positively impact on their corporate image and brand performance. Corporate identity thus can be explained by these two economic theories. The Knowledge-based theory and resource-based view of the firm explains the sustainable competitive advantage and guides on practices that could create more value for an organization (Cravens, 1998; Fahy & Smithee, 1999)

### **2.2.1 Product differentiation strategy**

Product differentiation is a strategy used by companies to gain market power and is achieved by producing products with different positive identities in the minds of consumers. The most important and difficult area of any business is the planning process; this means which strategy to adopt (Kotler 2009).

### **2.2.2 Meaning and Nature of Differentiation Strategy**

As the name suggests, it is a strategy that aims to distinguish a product or service from other similar products offered by competitors in the market. It needs to develop unique products or services for customers in terms of product design, function, brand image, quality or customer service (Berlin et al., 2004).

### **2.2.3 The Characteristics of Differentiation Strategy**

Porter (1994: 14) pointed out that in its differentiation strategy, the company tried to differentiate itself in the industry in several aspects that buyers generally appreciate. The company selects one or more attributes that are considered important by many buyers in the industry and meets these needs in a unique way. The company received high-priced rewards for its uniqueness. Each industry has a different approach to differentiation. Differentiation can be based on the product itself, the product delivery system used for sales, marketing methods, and various other factors.

The basis of the differentiation strategy is to provide buyers with unique or different things to distinguish the company's products or services from those of competitors. The important assumption behind the differentiation strategy is that customers are willing to pay high prices for products that are different in some important ways, such as better service, superior quality, and special appeal (Kotler, 2009).

The emergence of differentiation and competition on the basis of product enhancements has also led marketers to pay attention to the overall consumption system of users and the way users perform tasks of obtaining and using products and related services. Each increase will increase the cost, but the increased benefits will soon become the expected benefits and necessary points of underwear Jaquier (2010). According to (Kotler, 2009), sellers may face a large number of differentiating possibilities, including form, features, customization, performance quality, consistent quality, durability, reliability, reparability, and style. When it cannot be easily

distinguished, the key to successful competition may lie in adding valuable services and improving their quality. The main service differentiation is ordering, easy delivery, installation, customer training, customer consultation, maintenance and repair.

Differentiation is a competitive strategy employed by organizations where they strive to distinguish their products and services from those of competing firms. These could be achieved through packaging and pricing and for services, the manner in which the services are delivered (Porter, 1980). Several studies have been conducted on differentiation and organizational competitiveness. For instance, Nolega, Oloko Sakataka and Oteki (2015) examined product differentiation strategies and how they affected firm product performance using a case of Kenya Seed Company (KSC), Kitale. The findings showed that the product differentiation strategies employed in the last 10-15 years had improved the performance and competitiveness of KSC. Differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers which will reward them with a premium price. This study explored the challenges facing by Barclays Bank of Kenya and the strategies it employs to achieve competitive advantage. Being the leading bank in Kenya in terms of asset base, capitalisation and profitability, it was of interest to do an in-depth analysis of the bank's operations. The empirical finding of this study is that Barclays Bank of Kenya employs differentiation strategy aimed at achieving competitive advantage by offering better products or services at the same price or enhancing margins by charging a premium price, often to reflect the higher production costs and extra value added features provided to the customers.

#### **2.2.4 What are the Sources of Product Differentiation?**

Differentiation is due to buyers perceiving a difference. So, according to Jaquier (2010) sources of differentiation may be functional aspects of the product or price, how it is distributed, how it is processed and marketed. Vertical differentiation concerns distinguishing a product based on a single characteristic where the customer is clear on its quality. Quality hierarchies exist within product markets, where each competing product is ranked from low to high in terms of its

perceived quality. A vertical differentiation strategy will seek to create more demand for products by demonstrating product quality with the view of increasing the perceived quality of the product against others in a number of ways. Price can be used to differentiate in this respect due to the association made with higher price and quality. Horizontal differentiation is also usually concerned with distinguishing a product based on a single characteristic, but this time that characteristic is not quality. Consumers are not certain about the quality of the products that they are comparing. This entails distinctions in products that cannot be accurately evaluated and ranked in terms of quality. The product's differentiating factors may, therefore, be about the ways of processing, delivery method and product marketing. The physical product need not change, but it may also change should it need to. The differentiation process may be a review process that takes place annually or every 3 or 5 years with the established products and brands. It can vary within each organization and market. To discover new sources of differentiation, upon a review of external factors, it is necessary to look internally – specifically at the customer's experience or touchpoints with your organization and its products – to identify how best to differentiate your product offering.

In banking industry successful product differentiation approach and strategy will move a product from competing based primarily on quality/price to competing on additional non-price factors (product marketing, product distribution channel and product processing). Approaching a successful product differentiation strategy concerns differentiating other elements that concern the product, such as its marketing, that builds on traditional product differentiation and offers a differentiated product via a differentiated message. Key sources of product differentiation are as follows (which are also adapted from the 7Ps of classic marketing thinking):

- **Cost of product**

Whether you expect your company's costs to be affected more by operating cost changes or by capital cost changes also determines the success of your competitive strategy. For example, if you want to be the low-cost producer in the market but you anticipate rising capital costs as a major problem, your company's best bet is either to build early (if demand projections are bullish) or not to build new plants at all (if the market is mature). Either way, you lock into a low-cost position with fewer dollars of fixed asset investment. Then, given the capacity you

have, you try to produce at rates close to practical capacity in order to enhance the revenue productivity of your fixed investment.

The key cost drivers are the timing of capacity additions and investment and capacity use. Rising capital costs will hit your company hard if you rely on a differentiation strategy to win market share. There are limits to how much more buyers will pay for a product that is fancier than its rivals'. At some point, the buyers may be attracted to a more generic product at a lower price. The key is to contain new spending commitments that are affected by rising capital costs. You must try, insofar as you can, to shift the basis of your differentiation to operating cost variables—to advertising, service, inspection procedures, and manufacturing workmanship. If that is impossible and you must continue to base the strategy on the better performance of your product, then you must make certain that the costs to buy the new plant and equipment necessary to make your product the better performer can be offset by performance gains that will preserve your buyers' preference for your product and forestall their natural motivation to switch to a lower-cost substitute. Otherwise, a strategy to be the cost leader will beat a performance-based differentiation strategy.

A differentiation strategy based on the intangibles of image, buyer confidence, and brand recognition has a stronger chance of being successful when the costs of creating or maintaining the intangibles are not greatly affected by the forces of rising operating costs. The key is to find cost-competitive ways to preserve the value of differentiation for the buyer and to contain customer switching by offering lower prices. Another strategic option is to try to shift more of the basis for differentiation to aspects of product performance that can be added by investments in technology and fixed assets. Such a move may produce a durable competitive edge, especially if it catches competitors by surprise. Harvard business review

Product cost is often a highly prioritized service outcome when purchase price is a primary source of competitive differentiation. The total cost to produce and deliver the product to the customer provides a lower bound on profitable pricing and in this way limits pricing discretion. Price differentiation correlates negatively with attributes related to environmental hostility, uncertainty, dynamism and heterogeneity. It is likely to be found in predictable, stable markets. Consequently, growth in service delivery effectiveness is likely to result primarily from

continuous improvement on the status quo. Mature process technologies and stable product designs reduce the possibilities of growth through innovation or integration, making improvement an important source of performance growth (Hayes et al., 2005).

- **Product marketing**

The promotional activities of the organization, including its sales efforts, can also be a source of differentiation. Tweaks in how an organization conducts its marketing, which subsequently promotes and positions the product within the market, as you will already be aware, has the ability to greatly influence customer perception of the product. According to Porter (1991) Your competition affects how you make money and how you spend money. It affects how you make money because of the market share the competition has that you do not. It affects how you spend money in your pursuit of getting more of that market share for yourself. The products and marketing activities of your competition should be included in your financial strategy. An analysis of how the competition will affect revenue needs to be included in your planning.

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

- **Product distribution**

According to Kotteler (2009) Differences in timing and availability of the product offering can also offer organizations an opportunity for product uniqueness and differentiation. A marketing channel consists of the people, organizations, and activities necessary to transfer the ownership of goods from the point of production to the point of consumption. It is the way products get to the end-user, the consumer; and is also known as a distribution channel.

Channel Differentiation One of the ways a companies can differentiate their offerings in the minds of the consumers. They can differentiate their offerings through their channel's coverage, expertise, and performance and thus may achieve competitive advantage.

The delivery system in commercial banks is a mix of human resources, locations, and equipment (Smith, 2006). Developments in technology and information systems have enabled banks to access target markets (Kuzilwa, 2005). Automated teller machines installations (ATM), electronic funds transfer (EFT) and credit cards, the human skills must be developed to gain every possible benefit to ensure employees in banks deliver out of technology and to forecast trends in technology so that new opportunities are identified early (Grant, 2010). Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers who will reward them with a premium price (Worthington & Edwards, 2000). The performance of banks is critical in being able to reach its target clientele and cover administrative and other costs.

- **Product processing**

The production process of the organization may also dictate the differentiation elements of the product. Scale may also be a differentiating factor where economies of scale can emerge as a benefit, just as smaller production process – for short production runs – may be a source for differentiation. If organizations can enhance its production processes and methods, including the technology it uses, it can certainly attract more customers as a source of product differentiation.

According to Bani-Hani and AlHawary (2009), competitive advantage from product-price-performance is almost short term, especially in an era where technologies are altering the existing business boundaries. Advantages can only be sustained through competence that is enjoyed at the very roots of products. Notwithstanding the fact that studies have shown that a significant relationship exist between competitive advantage and organizational performance, competitive advantage and organizational performance are two different constructs with an apparently complex relationship (Ma, 2000). It has been argued that achieving a position of competitive advantage is a precursor to the significant performance of an organization (Barney, 1991) and that competitive advantage results from a long list of varying factors which include

operational efficiencies, mergers, acquisitions, levels of diversification, types of diversification, organizational structures, top management team composition and style, human resource management, manipulation of the political and/or social influences intruding upon the market, conformity to various interpretations of socially responsible behaviors and so forth

Every business process whether stand-alone or aligned with other processes will yield some value, particularly more when aligned (Kemppainen and Vepsäläinen, 2003). So the process alignment is designed to derive a quantified benefit to meet and outperform competition. Process differentiation happens by understanding and enabling how the business interacts with different internal and external constituents and customers, and where and how those intersections create or impede value. Most of change/create process initiatives are induced by work-flow, technology upgrades, performance (continuous) improvements and/or changes in business/revenue model that influence business activities (Pearce & Robinson, 2000). Porter (2004) suggested four competitive strategies that are differentiation, cost leadership, focus (cost focus and differentiation focus) that could be adopted in order to gain sustainable competitive advantage by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices. Service products, such as banks credit cards, being intangible and experiential in nature were different to evaluate prior to purchase and consumption. The study found that bank could reduce the cost of programs for banks to issue cards, pay merchants and settle accounts with customers thus allowing greater expansion of the payments and attain competitive. Visa and MasterCard developed rules and standardized procedures for handling the bank card paper flow in order to reduce fraud and misuse of cards.

### **2.2.5 Resource Based View Theory**

Barney's (1991) resource-based perspective theory reveals how strategic development starts from the company's relative position in related industries. This takes into account the corporate environment and the strategies used to maximize competitiveness. According to Barney, the companies in question are evaluated based on the core strategy's competition and advantages, resources and capabilities (Dang, 2011).

The theory lacks a link in explaining management operations. This theory explains how managers develop innovative resources to meet the uniqueness of products and services (Conor,

2002, cited in Hasan, 2009). According to (Connor 2002), the resource-based view cannot be applied to smaller companies because of the lack of competitive advantages and static resources.

### **2.2.6 Theory of Competitive Advantage**

This theory was put forward by Michael in 1990 and explained that competition depends on capital, labor, infrastructure, assets, land, and materials. The importance of demand conditions affects competitive advantage. Demand determines how the company interprets, responds and perceives customer behavior. The segmented structure of demand is a favorable and competitive market representative, but the share is small. Demand puts pressure on quality. This maintains access to better competition. Competition involves anticipating customer needs rather than company priorities. The relationship between demand and competitiveness depends on many factors that stimulate activities that create competitive advantage and growing demand. In supporting industries, competitiveness is determined by specific industries, thereby providing advantages in international market access. Entering a competitive industry can provide cost-effective operations. Increasing globalization increases investment in international markets, emphasizing effective use.

Partner companies assist companies with competitive advantages in applying new methods and opportunities such as technological innovation. Technological efforts affecting partners can lead to the development of new ideas. Corporate structure, strategy and competitive factors determine the competitive advantage. Strategic goals are affected by the national environment. The organizational structure is a reflection of prestige, goals, and priorities. Leaders, owners, and motivated suppliers and partners determine the company's goals. This theory assumes that sufficient competitive opportunities participate in the competitive advantage that optimizes the company's potential and enhances the degree of value chain.

### **2.2.7 Innovation Theory**

Berlin, Walter, and Gruyler (2004) suggest that the evolution of innovation theory can be explained by the increasing importance of social components, which were originally based only on tangible capital. This can be illustrated by the following content, which innovation experts Kipping and Engwwa (2003) consider important. Innovations derived from science, (technological promotion), innovations derived from market demand, (market pull), innovations

derived from the connections between market participants, innovations derived from technological networks and innovations derived from social networks. The above author further explained that the first explicit theory of innovation management is technology push theory or engineering theory. In this theory, the opportunity for innovation lies in the absorption of research results. According to this theory, basic research, industry, and R&D are the source of new or improved processes.

Alternative perspectives gave birth to market pull theory, which gave research a central role as a source of knowledge for developing or improving products and processes. Then the chain-and-loop theory explains the fact that the connection between knowledge and the market is not as automatic as assumed in engineering theory and market push theory. Mufford (2011) holds the same view. In addition, the theory that experts pay more attention to is social network theory, which believes that innovation is determined by research (technology-driven theory) and disordered interaction between companies and other participants (technical network theory). Insight is that knowledge plays a more important role in promoting innovation (Berlin et al., 2004). The framework of innovation involves systematic steps. First of all, the opportunity triggered by innovation may be a technological opportunity, or it may be a change in market demand. Second, it involves funding or mobilizing resources in the portfolio. Third, it involves the development of an enterprise. After selecting the relevant trigger signals, the company made a strategic decision to pursue these signals. This refers to the management process to maximize the opportunity to obtain value (Bessant & Tidd, 2011).

### **2.2.8 Generic Strategy**

Through the use of key strategic practices, generic strategies can be successfully linked to organizational performance (Porter, 1985). The author points out that the general strategy of low-cost differentiation, focus and combination strategy is generally accepted as the type of organizational strategy. His view is that low cost and differentiation are the discrete ends of a combination that may never be interrelated.

### **2.2.9 Services differentiation**

According to (Lancaster, 2003), the main service differentiation is ordering convenient delivery, installation, customer training, customer consultation, maintenance and repair. Convenient

ordering: How easy it is for customers to place orders with the company. Many financial service institutions provide online service sites to help customers obtain information and conduct transactions more effectively (Lancaster, 2003).

Delivery: The degree to which the product/service is delivered to the customer includes the speed, accuracy and care of the entire process (Lancaster, 2003).

Installation: Refers to the work done to make the product run in its planned location. Buyers of heavy equipment want good installation services. At this point, the differentiation of consumer chairs is particularly important for companies with complex products. Ease of installation becomes a real selling point, especially when the target market is technology novices (Lancaster, 2003)

Customer training: Refers to training customers' employees to use the supplier's equipment correctly and effectively. Example McDonald's asks its new franchisees to study for two weeks at Hamburg University in Oakbrook, Illinois, to learn how to properly manage franchise rights (Lancaster, 2003)

Customer consultation: refers to the data, information system and equipment services provided by the seller to the buyer.

Maintenance and Repair: Describe the service plan that helps customers keep purchased products in good working order (Lancaster, 2003)

Returns: Although product returns are undoubtedly a hassle for customers, manufacturers, retailers and distributors, they are also an inevitable reality of doing business, especially when buying online (Lancaster, 2003)

### **2.2.10 Product Concept**

Kotler (2009) defines a product as anything that can be provided to the market to attract attention, access, use, or consumption. Products can include physical goods, services, experiences, events, people, locations, properties, organizations, information, and ideas. When a business company needs to differentiate products, product-level knowledge is very useful. Products are complex entities that can distinguish or describe products of different levels.

### **2.2.11 Relationship between strategic alignment and competitive advantage**

It is argued that organizational performance can be achieved if an organization is able to align its internal resources with business strategy (Dyer et al., 2001). Porter (1991) claimed that strategic alignment is a way for organizations to ensure that all internal resources are consistent with the overall business strategy. Alignment among organizational departments may improve operational effectiveness by creating pressures and incentives (Porter, 1990), whereas a lack of alignment makes organizations weaker in competition with their rivals in the market place. Similarly, competitive advantage cannot be sufficiently achieved unless the company can link all strategy outcomes with functional processes and information systems. This is because alignment requires the same commitment among individuals at various levels to support the organizational goals and objectives, whatever their individual roles in the organization (Kathuria, Joshi and Porth, 2007). Hence, strategic alignment is a prominent factor in achieving the business strategy including allocation of resources to support the organizational performance (Papke-Shields and Malhotra, 2001).

### **2.2.12 General Overview of Changes in the Banking Industry around the World**

Competition is at the heart of the success or failure of firms as it determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations and cohesive culture. Allen and Gale (2000) defined competition as a rivalry in which every seller tries to get what other sellers are seeking at the same time: sales, profit, and market share by offering the best practicable combination of price, quality, and service. Where the market information flows freely, competition plays a regulatory function in balancing demand and supply. Wheelen and Hunger (2006) defined competitors as organizations that offer the same, similar, or substitutable products or services in the business arena in which a particular company operates.

The world today is changing faster than ever before. Technological developments, financial constraints, expanding markets, restructuring and mergers and government legislation are all putting pressure on organizations to change and stay dynamic. Panopoulou (2001) intimates that banking sector is one of the most regulated industries in the world and bank capital is one of the most important aspects of financial regulation. Until the 1980s banks in the majority of European Union countries operated in regulated national environment though there were countries like UK.

Germany, the Netherlands and Denmark where the industry was less regulated. Since the late 1970s, significant changes have been occurring in the financial services industry due to market de-regulation and financial innovation, combined with the development of new information technology applications. Against these trends changes in banking legislation and regulation have sometimes encouraged these trends or adapted to them. In effect, structural change in world banking markets has led regulators to reconsider traditional approaches to supervision and regulation. In the post war period, governments in advanced and developing countries implemented macroeconomic policies supported by a system of financial market regulations in which ceiling for nominal interest rate was one of the main instruments (Panopoulou 2001). Panopoulou further recons that in the recent years, regional financial crises had dramatic negative impact on the economic performance of many countries. The international financial institutions have attempted to adopt appropriate regulations and supervisory practices on local financial systems that would enhance financial stability and improve economic development. Deregulation and liberalisation of financial markets was introduced and resulted in major structural changes in the financial sector in Europe. In some European countries and Japan, this process was delayed for a longer period while 16 in Germany, Canada and the Netherlands banks' interest rates and capital controls was removed much earlier in the late 1960s and early 1970s. In Switzerland, Norway and Sweden, banking crises was preceded by liberalization of banks funding sources and very significant deregulation related credit booms. Fearing that they could lose ground in the vigorous competition touched off by liberalization, many banks pursued aggressive lending policies as pre-emptive resonance and were prepared to accept higher risks. (Einchengreen & Artela 2000) Due to structural changes, financial systems in many countries have undergone dramatic transformation. Many changes occurred in the volume of financial activities. Markets have grown in size and new financial products introduced. Carlos Artela & Eichengreen intimate that it's the instability of banking system that distinguishes economic crises from ordinary recession. Michael Beer (1987) noted that deregulation in the banking industry has forced banks to redefine their products and services so that they better meet customer needs. The more competitive markets require management of change strategies to achieve competitive advantage. The banking industry worldwide is undergoing transformation. The global forces for change include technological innovation; the deregulation of financial services at the national level and opening-up to international competition. The banking industries in central Europe and

Latin America have also been transformed as a result of privatizations of state-owned banks that had dominated their banking systems in the past. While banks are finding new sources of income - mortgages, currency services, and financial products such as consumer loans - they remain laden with bad debts from the unproductive and unprofitable state owned enterprises. The same situation is currently being witnessed in Ethiopia with banks coming up with new financial products and aggressively advertising to uniquely position themselves and thus attract the consumers' interest and active demand. What is not known is how the banks themselves perceive the role of the differentiation strategy in an environment where prices (tariffs) are controlled by the government.

### **2.3 Empirical Review of the study**

The value of being different has been studied by many researchers of different theoretical backgrounds. Despite the heterogeneity of the context of their studies, researchers in strategic management agree that a firm may face less competition by differentiating itself from others hence good performance. (Baum and Mezias, 1992; Barney, 1991; Hannan et al., 1990; Porter, 1991). From a population ecology perspective, the finite nature of the environment is such that firms occupy a distinct niche and compete for essential resources. From this point of view, a firm out-competes its competitors only when it locates itself in a niche where it possesses exclusive access to their sources it requires for survival (Hannan and Freeman, 1977). This ecological approach to competition assumes that the market has finite level resources. Subsequent research that adopts this ecology perspective thus argues that organizations compete more intensely when their resource requirements are similar (Baum and Mezias, 1992; Baum and Singh, 1994; Hannan et al., 1990). From this perspective, a firm can avoid competition for limited resources by departing from densely populated regions or differentiating itself from its competitors and therefore good firm performance.

Chan and Jamison (2001) conducted a study to determine the competitive strategy applied in the Bank of China. The author found that the industry witnessed the entry and exit of important players, fulfilled different legal regulations, and the structure and intensity of competition were different. Trade differentiation became the most important factor in the competitive strategy at that time.

In addition, Bonaccorsi, Patti, and Gobbi (2001) conducted a study to determine the impact of competition on Italian commercial banks. They conducted a sample survey of 15 commercial banks in Rome. From their research, they found that competition leads to higher growth rates and more credit effects, including fewer new company creation, expansion and employment, economic growth and slower exit speeds of mature companies.

In addition, Ferdinard (2002) investigated the competitive strategy applied by the British Tesco Company Ltd. The study was conducted on 230 employees in different departments. The author points out that the company is positioned to use its value proposition that emphasizes low costs. The study also determined that the company usually focuses its efforts on value-oriented customers in the market. Value products focus on providing value-oriented customers with products that are really worthwhile compared to competing products.

In addition, Alamdari and Fagan (2005) conducted a study to determine the effectiveness of low-cost models and their impact on profitability. They found that if the products are basically indistinguishable and are sold at standard market prices, the lowest cost will yield the highest profit. Companies that follow this strategy emphasize reducing the cost of each activity in the value chain. However, the author found that the company focused on reducing costs, sometimes even at the expense of other important factors.

Al-alak, Saeed, and Trarabieh (2011) studied the relationship between customer orientation, innovation differentiation, market differentiation, and organizational performance. The survey of 16 banks provided the basis for the empirical investigation. The relationship between the four potential structures was examined using structural equation modeling and confirmatory factor analysis. The research results show that customer orientation has a positive contribution to organizational performance. Another thing identified by the study is that innovation differences have a greater impact on organizational performance than market differences. In addition, performing these two tasks at the same time can gain a greater competitive advantage and thus bring the best results for the company's performance. Diris, Iyiola, and Ibidunni (2013) studied product differentiation as a competitive advantage tool for optimizing organizational performance. The research aims to examine the impact of product differentiation as a competitive strategic tool on company performance. To investigate this relationship, the sample included 323 customers. In order to get a clear analysis, the research will focus on two variables;

the dependent variable and the independent variable. Another stream of research that emphasizes the benefits of being different derives from the resource-based theory perspective. In this view, it is essential for a firm to preoccupy valuable, non-substitutable, rare, and inimitable resources in order to sustain good firm performance over its competitors (Barney, 1991). Because of their very nature, rare and inimitable resources require that a firm exploit and deploy them in a unique way compared to its market competitors; in other words, the way a firm operates in the market 10 differentiates it from its competitors. Since successful strategies are more likely to be imitated (Haveman, 1993) and mimetic behaviors can arise under conditions of uncertainty (Cyert and March, 1992; DiMaggio and Powell, 1983), a successful firm's rare and inimitable resources are always at risk of being imitated by its competitors. Therefore, a firm should constantly strive to differentiate itself from its competitors and seek rare and inimitable resources with which to sustain its competitive advantage and continually improve its sales hence good performance.

Product differentiation constitutes one of the other strategies advocated for by Porter as a strategy for achieving competitive advantage and superior performance by firms faced with a competitive environment [19]. Researchers have long engaged in a debate on whether differentiation strategy affects firm performance. The findings attributed to this debate show a mixed picture, with a number of them reporting the existence of a significant relationship between the two variables, while others show no significant relationship between differentiation strategy in relation to firm performance. For instance, a study was conducted in Kenya seeking to find out whether differentiation strategy is related with the performance of manufacturing firms [20]. Using Porter's competitive strategy typology, they collected primary data using both self-administered questionnaires and analyzed the data using descriptive and inferential statistical techniques, and they found that the strategy of differentiation was significantly related with the performance of manufacturing firms. A similar research was undertaken to study how differentiation strategy was related with organizational performance with a specific focus on Semarang State University [12]. They relied on a random sample of 150 employees of Semarang State University and Structural Equation Modelling techniques and concluded that differentiation strategy was significantly related with the performance of Semarang State University. However, the study was based on a single case, which limits its generalizability value.

In China, researchers studied the determinants and consequences of product differentiation strategy using indigenous Chinese exporters as their case study [21]. They specifically sought to find out the predictors of product differentiation strategy and how it impacts on the performance of exports and whether this impact was motivated by export target markets. They employed structural equation modelling when analyzing data collected from 195 indigenous Chinese exporters, and they found that product differentiation strategy was significantly associated with export performance in a positive manner, and the effect was stronger for firms exporting to developed markets.

In Nigeria, a group of researchers undertook to find out whether service differentiation was related with a competitive advantage by specifically focusing on the country's National Railway Corporation [10]. They collected primary and secondary data from a sample of 100 commuters as well as internal performance reports, respectively. Their results indicated that service differentiation had a significant impact on creating a competitive advantage for Nigerian Railway Corporation, particularly in a standardized business environment. Still in Nigeria, other researchers undertook a study in which they used a survey design to collect primary data using questionnaires from 83 owners/managers of hotels in Kano North West in Nigeria [22]. Through the technique of Partial Least Squares, they found that the strategy of differentiation had a significant and positive influence on the performance of hotels in Kano North West in Nigeria. However, the results of the study have very limited generalizability value because they were based on data generated from a single geographical area where the socio-economic dynamics are far different from those existing in other countries. The link between differentiation strategies and firm performance was further empirically tested using evidence from Iran's fashion clothing industry [11]. They defined differentiation strategies to include product differentiation, employee differentiation, service differentiation, distribution differentiation, and image differentiation. They collected data from 100 women's clothing mesons in Tehran, Iran. Their results showed that all the different categorization of product differentiation mentioned above had a significant effect of the performance of women's clothing mesons. Also, using organizational learning theory, some authors researched the linkage between organization learning, differentiation strategy, and perceived firm performance of textile firms in Pakistan [23]. The results indicated that the perceived performance of Pakistan textile firms was significantly affected by the differentiation strategy. In Indonesia, specifically in the South Sulawesi region, it was found that

differentiation strategy had a significant negative effect on SME's performance, which means that the more SMEs practiced differentiation strategy, the less they performed operationally [8]. The findings were unexpected; however, the author did not explain the reasons for this finding. In Kenya, researchers undertook a study aimed at finding out whether differentiation strategies affected the achievement of competitive advantage with a specific focus on Equity Bank Limited [24]. Their findings showed that, indeed, Equity Bank is actively engaged in product and service differentiation and that this strategy had enabled Equity Bank to achieve a competitive advantage. However, because the study was based on evidence generated from a single Bank, its generalizability is limited. The current study overcomes this limitation by considering evidence from 10 selected commercial banks in Uganda.

However, there are also studies that have been done and reveal findings to the effect that there is no significant relationship existing between differentiation strategy and performance of firms in terms of various outcomes. For instance, researchers were motivated by a desire to find out whether differentiation strategy had a relationship with the performance of car businesses with a specific focus on car rental businesses in the Nairobi City County of Kenya [9]. The collected data from a stratified random sample of top, middle and lower-level management of 15 purposively selected car rental businesses in Nairobi City County. They analyzed the data using descriptive, correlation, and regression statistical techniques and found no significant relationship existed between differentiation strategy and performance of car rental businesses. The study findings however have limited generalizability because they were only based on in one County which is Nairobi City, and worse still, the car rental firms studied were not randomly selected, which creates a sample selection bias. In India, differentiation strategy and its effect on firm performance were further examined, but it was found that there didn't exist any evidence of a statistically significant relationship between differentiation strategy and firm performance [14]. Overall, the literature review highlighted above show a mixed picture regarding the relationship between product differentiation strategy and firm performance. Accordingly, this study undertook to test the following null hypothesis: H<sub>0</sub>: Product differentiation strategy does not significantly affect the financial performance (return on investment, return on assets, and net profit after tax) of commercial banks in Uganda.

## 2.4. Conceptual Framework of the Study

The conceptual framework shows the crucial process, which helps to illustrate the trajectory of the research. The study will prove the relationship between the independent variable and the dependent variable.

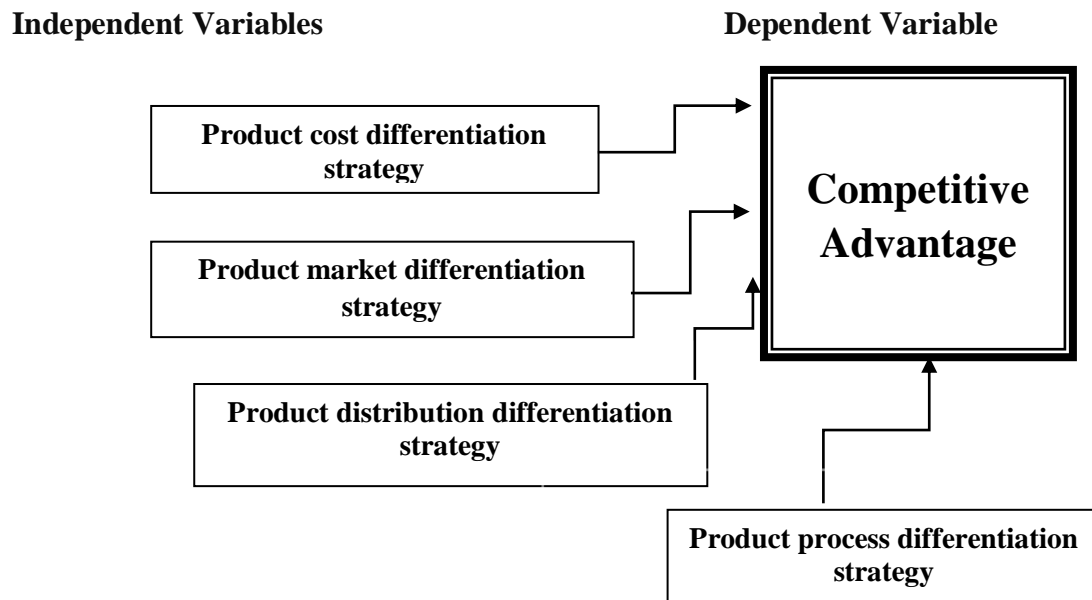


Figure 2.1: conceptual frame work of the study

**Source:** Kireru et al...Int. J. Business & Law Research 4(2):40-52, 2016

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The main purpose of this chapter is to systematically analyze research problems (follow scientific procedures). It can be understood as the science of studying how to conduct research scientifically. This chapter includes research methods, research design, data types and sources, sample sizes and techniques, data collection methods, data analysis methods, and ethical considerations.

#### **3.2 Research Approach**

According to John (2014), research methods are research plans and procedures that cover the steps from a wide range of hypotheses to detailed data collection, analysis, and interpretation methods. The choice of research method is also based on the nature of the research problem or the problem being solved, the researcher's personal experience, and the research audience. There are three basic research methods (a) qualitative (b) quantitative (c) hybrid method.

Christensen (1985) pointed out that if the purpose of investigation is to describe the degree of relationship between variables, then quantitative investigation is the most appropriate method. Therefore, the research was conducted using both quantitative and qualitative research methods

#### **3.3. Research Design**

Research design is only the framework of research and use explanatory. From different types of research designs, the interpretative research design will be used as the main research design of this research to achieve the expected goals. The reason behind the use of an explanatory type of research design is that researchers are interested in being able to assess the degree of correlation between independent and related variables. The study will use an explanatory research design to explain, understand, predict and control the relationship between variables. Through the cross-section of the population, relevant data will be collected at one point in time.

According to Saunders, Lewis, and Thornhill (2007), there are two main research methods: deduction and induction. Through deduction, theories and hypotheses (or hypotheses) are

formed, as well as research strategies aimed at testing hypotheses. Through induction, collecting data and developing theories as a result of data analysis. For this study, the researcher used induction because there is no hypothesis test. Researchers will use mixed method research to obtain detailed information about research topics. Hybrid methods can be defined as "researchers collect and analyze data, integrate results and draw inferences in a study" (Tashakkori & Creswell, 2007).

### **3.4. Target Population**

According to Zikumend (2003), the definition of population is the total set of identifiable elements of interest that researchers are investigating. The target population is defined as the entire group of interest to the researcher. The population of this study will be all 574 managerial employees of commercial bank of Ethiopia at head office in Addis Ababa city. These selected managerial employees were chosen on the one hand because of the significant role for strategy formulation they have, and on the other hand they are the first responsible for proper implementation of selected strategy.

### **3.5. Sampling Frame**

According to Lobiondo-Wood and Haber (1998: 250), in his study, the sample frame is a list of all members from which samples are to be drawn; it is a complete list of all sampling units of the population. All the supervisory staff working at commercial bank Head office, served as the sampling frame for the study. The study population comprised of division directors, department Managers and team leaders.

### **3.6. Sampling Size and Techniques**

#### **3.6.1 Sample size**

Considering the scale and time, it is difficult to collect data on the entire population. Therefore, in order to avoid this restriction, researchers are forced to draw samples from the entire population. According to Field (2005), as long as it is possible to access the entire population, it is possible to collect data from the sample and use the behavior within the sample to infer things about the population's behavior. Field also pointed out that the larger the sample size the more likely it is to reflect the entire population. Correspondingly, in order to make the sample more

representatives in the research, the sample size of the research is determined using the formula adopted by Krejcie and Morgan (1970). Thus, the formula used to calculate the sample size is.

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

Where

n = the sample size = consider the Margin of error is 5 % N = the study population (574)

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

1 =designates the probability of the event occurring Therefore:

Using the formula:  $574 / (1 + 574(0.05^2))$  n=254

Therefore, 254 respondents were used as sample for this study to gather data through questionnaire. This was considered easy to work with in terms of time and resources, and also representative enough the entire population.

### **3.6.2 Sampling Techniques**

The researcher has used convenience sampling techniques to select questionnaire respondents from the total population, and purposeful sampling methods to conduct interviews. The basic principle of the convenience sampling method is that all supervisory employees in the bank are not available at the same time, and it is impossible to contact everyone who may be sampled.

### **3.7 Data type and Source**

The study used both primary and secondary data types. In order to achieve the research goals, questionnaire surveys were used to collect raw data from the bank supervisory employee. The secondary data sources were obtained by referring to the relevant topics and written documents of the research organization. Books, previous research in the field, reports, journals, etc. were also be used to collect information that will help achieve the research goals.

### **3.8 Data Collection Methods**

The data collection method was designed as self-filled questionnaires and interview questions with bank managers. The questionnaire was adopted from previous researches and again be

arranged in five Likert scales. The researcher distributed the questionnaire to each sample respondents, and personally gave them the questioner.

### **3.9 Method of Data Analysis**

An analysis of the survey data was performed using SPSS V.25 to analyze and present data through statistical tools suitable for analyzing and presenting research. Data collected were analyzed by using both descriptive and inferential statistics. The descriptive statistical tools helped in describing the data and determining the respondents' degree of agreement with the various statements under each research question. They have included frequencies and percentage as well as mean, standard deviation and variances were presented by using tables. Descriptive analysis: refers to the conversion of original data in a form that is easy to understand and explain, and is used to summarize and describe the case data included in the study.

### **3.10. Reliability and Validity**

Kazi (2010) suggest two major criteria which applied to evaluate the quality of the study. These are validity and reliability.

#### **3.10.1. Reliability**

Extents to which a variable or set of variables is consistent in what it is intended to measure (Hair et al., 1998). It differs from validity in that it relates not to what should be measured, but instead to how it is measured. Several measures have been used to establish the reliability of the instrument, for example, split-halves, test retest, equivalent forms and internal consistency method. The current study used multiple items in all constructs. So the internal consistency method is appropriate for the current study. Hair et al. (1998) mentioned that the rationale for internal consistency is that the individual items or indicators of the scale should all be measuring the same construct and thus be highly inter-correlated. Internal consistency reliability of all questions was assessed by the Cronbach's alpha coefficients of measurement items for each construct. Zikmund (2003), suggest that a Cronbach's alpha value of  $> 0.7$  indicates a considerably high reliability.

### **3.10.2. Validity**

Validity represents how well a variable measure what it is supposed to measure. Validity is concerned with whether the findings are really about what they appear to be about. Kazi (2010) defined the validity as “the degree to which a measure accurately represents what it is supposed to”. Validity is concerned with how well the concept is defined by the measure(s). He also mentioned about three types of validity: content validity, Predictive validity, and Construct validity. Kazi (2010) defined the content validity as the assessment of the correspondence between the individual items and concept. In this study all variables (items) were inspected by the researcher and three passenger customer service experts to ensure that they were an adequate and a thorough representation of the construct under investigation. To test the questionnaire for clarity and to provide a coherent research questionnaire, a macro review was accurately performed. Some items were added, based on their valuable recommendations. Some others were reformulated to become more accurate and clear, and this was required for the purpose of enhancing the research instrument.

### **3.11. Methods of Presentation**

The data from the study were presented in the form of tables, graphs and charts as desired so as to make all the data readable and understandable by all concerned parties.

### **3.12 Ethical Consideration**

During the process, the Ethical issues were taken in to consideration where by the response generated in the survey kept confidential and respondents will be informed about the objective as well as ethical consideration in addition prior permission of respondents were made regarding the information collected. To avoid misunderstanding and problems related with questionnaires and interview in acquiring information from the staff and customers the researcher have designed the questionnaires and interview in clearly and understandable manner.

## **CHAPTER FOUR**

### **4. Results and Discussions**

#### **4.1 Introduction**

This chapter presents the results of the data analysis according to the research methodology discussed in chapter three. A detailed discussion regarding to the five research result is also presented and tested.

#### **4.2. Results**

##### **4.2.1. Sample and Response Rates**

After distributing 254 questionnaires for managerial employee of commercial bank of Ethiopia, a total of 235 answered questionnaires were retrieved, which is 95% of the total distributed questionnaires. After checking the retrieved questionnaires, the 235 questionnaires were valid for statistical analysis. Ultimately, 95% of the total questionnaires distributed entered the analysis.

##### **4.2.2. Missing Data**

Missing data frequently occurs in a situation in which a respondent cannot respond to one or more questions of a survey (Hair et al., 1998). In this study, missing value above 1%, on a single item was considered as incomplete and the response was rejected from further analysis. Because of low percentages of missing values considered, the primary procedure used in this study was to replace missing values with mean substitution. According to Hair et al. (1998), mean substitution is a widely used method for replacing missing data, whereby missing values for a variable are replaced with the mean value based on all valid responses.

##### **4.2.3 Descriptive statics**

In the questioner section A was designed to capture some basic demographic details of the respondents involved in the study. Section B was designed to capture data related to product cost differentiation, product market differentiation, product distribution channel differentiation, product process differentiation and bank competitive advantage.

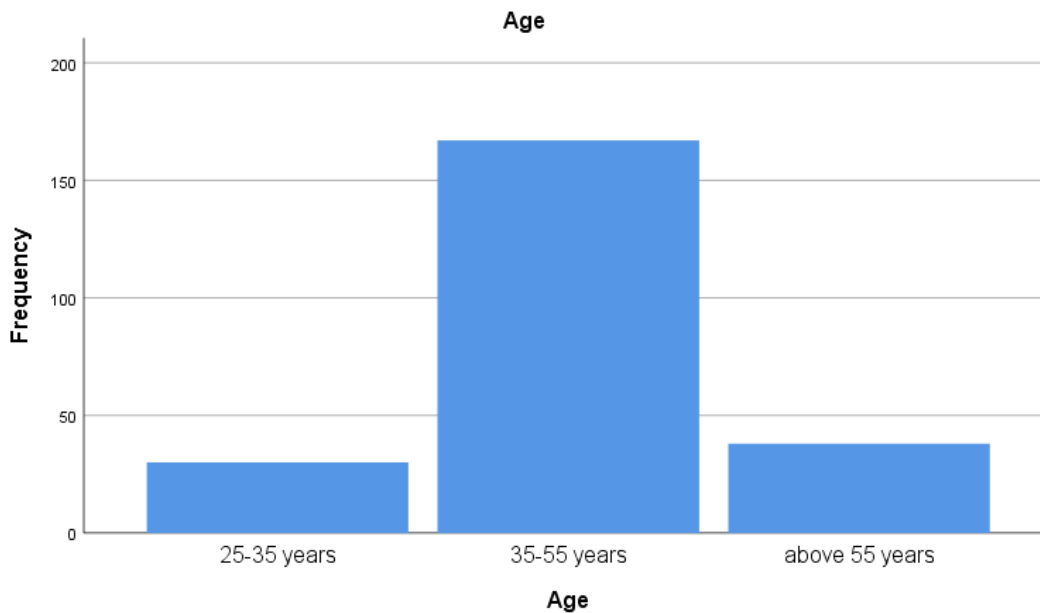
### 4.2.3.1 Demographic analysis of respondents

Before starting analysis of data some background information like demographic data, is useful in order to make the analysis more meaningful for the readers. The samples of this study have been classified according to several background information collected during survey.

#### 4.2.3.1.1 Age

The male respondents constituted the largest share of the gender composition representing 63% of the respondents (148) while 87(37%) were female employee.

The age groups were distributed as shown in figure 4.1 as it can be seen from the figure majority of the respondents (167 or 71.1%) were from 35-55 years' age group.



**Figure 4. 1. Age distribution**

**Source:** Researcher survey finding (2022)

#### 4.2.3.1.2 Educational Background

Regarding the educational background of the respondents (73.0%) of the respondents were master's degree holders, followed by the second largest respondents who have first degree (27%).

**Table 4. 1 Educational background**

Educational qualification					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	BA/BSc Degree	63	26.8	27.0	27.0
	Master's degree	170	72.3	73.0	100.0
	Total	233	99.1	100.0	
Missing	System	2	.9		
Total		235	100.0		

**Source:** researcher survey finding (2022)

#### 4.2.3.1.3 Service Year

One of the demographic variables asked to the respondents was the years of experience in which most of the respondents 45.5%(107) are serve the bank (11-20 years) and next to this 26.4 (62) have (2-10 years) of experience as explained by table 4.2.

**Table 4. 2 Years of service**

Years of service					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	0-1 year	6	2.6	2.6	2.6
	2-10 years	62	26.4	26.4	28.9
	11-20 years	107	45.5	45.5	74.5
	21 and above	60	25.5	25.5	100.0
	Total	235	100.0	100.0	

**Source:** researcher survey finding (2022)

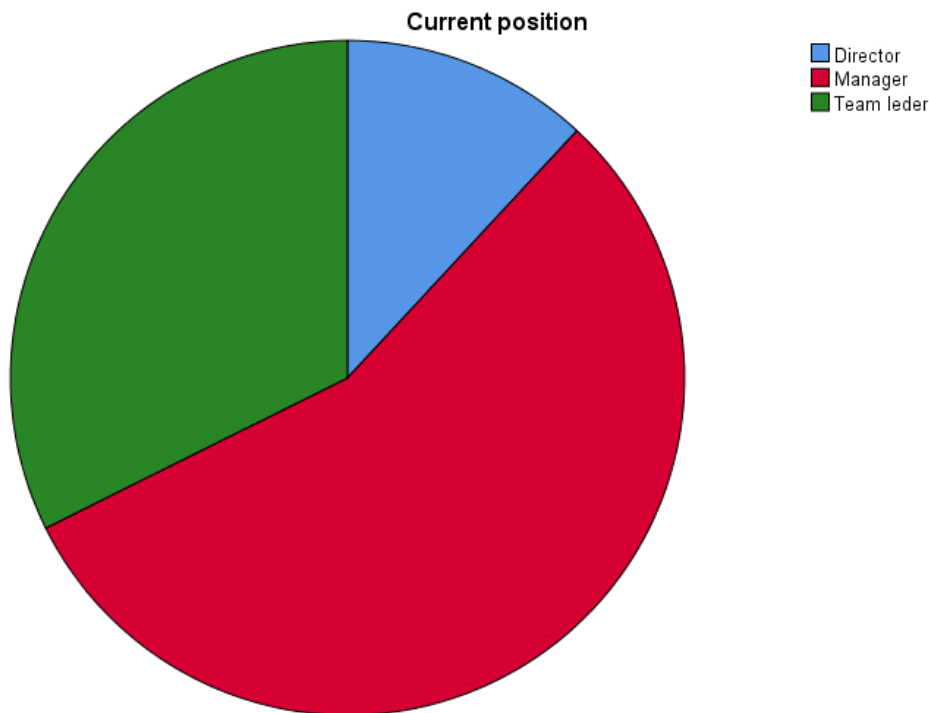
#### 4.2.3.1.3 Current Position

Regarding the current position of the respondents (55.7%) of the respondents were department managers, followed by the second largest respondents who are team leaders (32.3%) and the rest (11.9%) were directors as explained by table 4.3 and figure 4.2.

**Table 4.3 Current position**

Current position					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Director	28	11.9	11.9	11.9
	Manager	131	55.7	55.7	67.7
	Team leader	76	32.3	32.3	100.0
	Total	235	100.0	100.0	

**Source:** researcher survey finding (2022)



**Figure 4.2 Respondent position distributions**

**Source:** Researcher survey finding (2022)

#### **4.2.3.2 Descriptive Analysis of Variables**

The mean scores have been computed for all the seven perceived value for product cost differentiation related question that are, Products reengineering led to production of reliable financial service delivery channels, The value of bank product led to superior bank performance

in the market, The bank offers financial mix at lower charges, Lower bank products cost attract and increase bank customer base, The different bank products are offered at one banking branch as a one stop shop, Low cost led to product of quality financial products and Bank product are designed as per customer need reducing failure mean scores of all the items under each dimension. Respondents were asked to rate their perception on a five-point Likert type scale ranging from 1 being strongly disagree/ very unsatisfactory to 5 strongly agree / excellent for perceived service quality dimensions. The result is presented in Table 4.4

**Table 4. 4. Product cost differentiation in achieving competitive advantage**

Descriptive Statistics						
	N	Range	Min	Max	Mean	Std. Deviation
Products reengineering led to production of reliable financial service delivery channels	235	4.00	1.00	5.00	4.1532	.94391
The value of bank product led to superior bank performance in the market	235	4.00	1.00	5.00	4.0681	.87927
The bank offers financial mix at lower charges	235	3.00	2.00	5.00	4.0894	.81420
Lower cost of bank products attracts and increase bank customer base	235	3.00	2.00	5.00	4.4298	.78879
The different bank products are offered at one banking branch as a one stop shop	235	3.00	2.00	5.00	4.5787	.77154
Low cost led to product of quality financial products	235	4.00	1.00	5.00	4.4255	.91392
Bank product are designed as per customer need reducing failure	235	3.00	2.00	5.00	4.4894	.82877
Valid N (list wise)	235					

**Source:** researcher survey finding (2022)

The mean scores of product cost differentiation of commercial bank of Ethiopia from the seven dimensions range from 4.0681 to 4.5787 indicating that employees feel that cost differentiated product being offered by commercial bank of Ethiopia is more than average. Comparison of means of dimensions indicates that The different bank products are offered at one banking branch as a one stop shop has got the highest mean score (4.5787) with sd. = 0.77154; whereas

The value of bank product led to superior bank performance in the market has got the least mean score value (4.0681) with sd. = 0.87927

**Table 4.5 Product market differentiation in achieving competitive advantage**

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
The company undertakes promotion to a very great extent	235	1.00	5.00	4.2213	.81779
The bank products were promoted to a great extent	235	1.00	5.00	4.4511	.97004
Marketing improve sales	235	1.00	5.00	4.4340	.91457
Brand communication boost product awareness	235	1.00	5.00	3.7064	1.21025
Segmented marketing has been adopted by the company	235	1.00	5.00	4.2638	.73276
The company heavily invest on electronic and print media promotions	235	1.00	5.00	4.3872	.74467
Company apply technology market positioning portfolio	235	1.00	5.00	4.3660	.94852
Marketing lead to designing of customized products	235	1.00	5.00	4.2128	.89958
Valid N (listwise)	235				

**Source:** researcher survey finding (2022)

Based on the survey the mean scores of product market differentiation of commercial bank of Ethiopia from the eight dimensions range from 3.7064 to 4.4511 indicating that employees feel that market differentiated product being offered by commercial bank of Ethiopia is more than average. Comparison of means of dimensions indicates that the bank products were promoted to a great extent has got the highest mean score (4.4511) with sd. = 0.97004; whereas Brand communication boost product awareness has got the least mean score value (3.7064) with sd. = 1.21025

Product distribution channel differentiation is further divided into six attributes. The mean scores have been computed for all the six attributes of product distribution channel differentiation. The result is presented in Table 4.4. The mean scores of product distribution channel differentiation

for all the six attributes range from 4.0426, for the attribute Use of RTGS improve level of Non-Funded income level to 4.5532, for The bank infrastructures enhance the bank performance. Overall, product distribution channel has a mean score of 4.0426 which is above average. Overall, product distribution channel differentiation has a mean score of 4.275 which is above average.

**Table 4. 6. Product distribution channel differentiation in achieving competitive advantage**

<b>Descriptive Statistics</b>					
Item	N	Min	Max	Mean	Std. Deviation
The bank use ATMs increasing bank returns	235	1.00	5.00	4.1362	.87619
Use of RTGS improve level of Non-Funded income level	235	1.00	5.00	4.0426	.84118
Use of high skilled human resource	235	1.00	5.00	4.1106	.84511
The bank location in areas where there are no competitor banks	235	1.00	5.00	4.5149	.97555
The bank infrastructures enhance the bank performance	235	2.00	5.00	4.5532	.82712
Multiple payment channels including international cards gateway	235	1.00	5.00	4.2936	1.00584
Valid N (list wise)	235				

**Source:** researcher survey finding (2022)

Product distribution channel differentiation is further divided into six attributes. The mean scores have been computed for all the six attributes of product distribution channel differentiation. The result is presented in Table 4.4. The mean scores of product distribution channel differentiation for all the six attributes range from 4.0426, for the attribute Use of RTGS improve level of Non-Funded income level to 4.5532, for The bank infrastructures enhance the bank performance. Overall, product distribution channel has a mean score of 4.0426 which is above average. Overall, product distribution channel differentiation has a mean score of 4.275 which is above average.

**Table 4. 7 Product process differentiation in achieving competitive advantage**

<b>Descriptive Statistics</b>					
	N	Min	Max	Mean	Std. Deviation
The bank adapts to the regulations	235	1.00	5.00	4.2851	1.05793
The bank adopt technology in delivery financial products	235	1.00	5.00	4.1872	.88618
Resolve risks facing employees before they occurred	235	1.00	5.00	4.3915	.81120
The top management is supportive and committed toward achieving best returns	235	1.00	5.00	4.4809	1.06109
The bank management focus on integration of initiatives into the bank's strategy	235	1.00	5.00	4.2894	.98346
Promote credibility within the bank	235	1.00	5.00	4.2426	.93638
Enhanced cooperation from bank departments	235	1.00	5.00	4.1957	.97620
Bank enhance staff motivation	235	2.00	5.00	4.2979	.91789
Valid N (list wise)	235				

**Source: researcher survey finding (2022)**

Product process is further divided into eight attributes. The mean scores have been computed for all the eight attributes. As it can be seen from Table 4.6, The top management is supportive and committed toward achieving best returns was the highest rated dimension relative to others with a mean score of 4.4809 with the standard deviation (1.06109). The bank adopt technology in delivery financial products was perceived as the lowest by respondents with a mean score of 4.1872 and sd. = .81120. The overall mean for information particular is 4.296, which is above average.

**Table 4. 8. Descriptive statics of competitive advantage**

<b>Descriptive Statistics</b>					
	N	Min	Max	Mean	Std. Deviation
Low charge of bank product led to increase in bank market share	235	1.00	5.00	4.2979	.95887
The company gain more market share due to brand marketing	235	1.00	5.00	4.2723	.96204
Product marketing differentiation influence competitive advantage of the company	235	1.00	5.00	4.1745	.90073
Establishment of the huge branch network attract more customer	235	1.00	5.00	4.1787	.86354
Effective management have advantage for competition in the market	235	1.00	5.00	4.0255	.99539
The use of mobile banking attracts more customers than competitors in the market	235	1.00	5.00	3.9915	.96959
The bank telecommunication technologies upgrade influence bank competitiveness	235	1.00	5.00	4.0255	.96929
Valid N (list wise)	235				

**Source:** researcher survey finding (2022)

Competitive advantage of bank is further divided into seven attributes. The mean scores have been computed for all the seven attributes of competitive advantage. The result is presented in Table 4.7. The mean scores of bank competitive advantage for all the six attributes range from 4.2723, for the company gain more market share due to brand marketing to 3.9915. The use of mobile banking attracts more customers than competitors in the market Overall; bank competitive advantage has a mean score of 4.0426 which is above average. Overall, product distribution channel differentiation has a mean score of 4.137 which is above average.

#### **4.2.3.3. Summated Scale**

In order to reduce measurement error by improving individual variables, Hair et al. (1998) recommend using multivariate measurements, which are known as summated scales, as identified as replacement variables. Hair et al. (1998) described a summated scale as a method of combining several variables that measure the same concept into a single variable in an attempt to increase the reliability of the measurement through multivariate measurement. The ultimate goal of adopting summated scales is to avoid the use of only a single variable to represent a concept and, instead, to use several variables as indicators, all representing differing facets of the concept to obtain a more well-rounded perspective (Hair et al., 1998). The use of multiple indicators enables researchers to specify more accurately the desired responses (Hair et al., 1998).

#### **4.2.3.4. Content Validity**

Content validity, also known as face validity, is the assessment of the correspondence of the variables to be included into a summated scale and its conceptual definition (Hair et al., 1998). All variables (items) were inspected by the researcher and three principal research experts of the bank to ensure that they were an adequate and a thorough representation of the construct under investigation. To test the questionnaire for clarity and to provide a coherent research questionnaire, a macro review was accurately performed. Some items were added, based on their valuable recommendations. Some others were reformulated to become more accurate and clear, and this was required for the purpose of enhancing the research instrument.

#### **4.2.3.5. Reliability**

In general, reliability is used to test the internal consistency among the variables or items through a summated scale (Hair et al., 1996). Cronbach's Alpha is used to measure how well a set of items (or variables) measure a single uni-dimensional latent construct. (Malhotra, 2007). Cronbach's Alpha is low when data have a multi-dimensional structure. Malhotra, (2007) suggests that an alpha of 0.70 or greater should be considered adequate to develop a new questionnaire. Therefore, a low coefficient alpha indicates the sample of items perform poorly in capturing the construct motivating the measure. Conversely, a large coefficient alpha implies that the k-items test correlates with the true scores closely Malhotra, (2007). Bank product cost differentiation was measured using the 7 dimensions listed in the questionnaire, which were

combined into a single scale (Cronbach's alpha = 0.712). 'Product market differentiation' were measured using the eight items listed in the questionnaire, which were combined into a single scale (Cronbach's alpha = 0.708). 'product distribution channel differentiation' were measured using the six items listed in the questionnaire, which were combined into a single scale (Cronbach's alpha = 0.755)., 'product process differentiation' were measured using the eight items listed in the questionnaire, which were combined into a single scale (Cronbach's alpha=0 .732) and 'product process differentiation' were measured using the seven items listed in the questionnaire, which were combined into a single scale (Cronbach's alpha=0 .809) (See Appendix II, Table 4.11).

#### **4.2.4. Inferential Analysis of variables**

To investigate the relationships between dependent and independent variables multi linear Regression analysis with (F) test using ANOVA table was used.

##### **4.2.4.2. Regression Analysis**

Albaum (1997) noted that regression is a technique used to predict the value of a dependent variable using one or more independent variables. Malhotra (2007) showed that regression analysis is a statistical tool for the investigation of relationships between variables. In order to ascertain the causal influence of one variable upon another, researchers assemble data on the underlying variables of the causal variables upon the variable that they influence Malhotra (2007). Researchers typically evaluate the "statistical significance" of the estimated relationships, namely, the degree of confidence that the true relationship is close to the estimated relationship Malhotra (2007).

##### **4.2.4.2.1. Assumption Testing for Regression Analysis**

Meeting the assumptions of regression analysis is necessary to confirm that the obtained data truly represented the sample and that researcher has obtained the best results (Hair et al., 1998). Two assumptions for regression analysis used in this study will be discussed for the individual variables: multi-collinearity and linearity (Hair et al., 1998). In the following paragraphs, each assumption is explained.

#### 4.2.4.2.1.1. Multi-collinearity

Hill et al., (2003) explain that economic variables may move together in systematic ways when the data are the result of an uncontrolled experiment. Such variables are believed to have problems with collinearity or multi-collinearity when several variables are involved (Hill et al., 2003). Generally, as multi-collinearity rises, it will complicate the interpretation of the variables because it is more difficult to confirm the effect of any single variable, owing to their interrelationship (Hair et al., 1996). According to (Hill et al., 2003), multicollinearity is not a violation of the assumptions of regression but it may cause serious difficulties. Hill et al., (2003) propose that these serious difficulties include: (1) variances of parameter estimates may be unreasonably large; (2) parameter estimates may not be significant; and (3) a parameter estimate may have a sign different from what is expected. The initial inspection of the Pearson Correlation Matrix (see Table 4.16, Appendix II) for the regression models revealed that the correlations between the independent variables did not exceed 0.80. While checking, the independent variables showed significant relationship with the dependent variable (above .3 preferably). Also the researcher checked that the correlation between each of independent variables is not too high. Hill et al., (2003) suggest that you think carefully before including two variables with a bivariate correlation of, say, or more in the same analysis. As it can be observed from table 4.12 Pearson Correlation Matrix the correlation table there is no correlation between the independent variable which is above 0.7. Therefore, all variables will be retained.

**Table 4. 9 Relationship between variables**

Dimension	PRODUCT COST	MARKET DIFFERENTIATION	DISTRIBUTION CHANNEL	PROCESS DIFFERENTIATION	Competitive advantage
PRODUCT COST	1				
MARKET DIFFERENTIATION	-.009	1			
DISTRIBUTION CHANNEL	-.026	-.157	1		
PROCESS DIFFERENTIATION	.073	-.033	-.104	1	
Competitive advantage	.163*	.123	.365**	.157*	1

**Source:** researcher survey finding (2022)

#### **4.2.4.2.1.2. Linearity**

The linearity of the relationship between the dependent and independent variable represented the degree to which the change in the dependent variable is associated with the independent variable (Hair et al., 1998). In a simple sense, linear models predict values falling in a straight line by having a constant unit change (slope) of the dependent variable for a constant unit change of the independent variable (Hair et al., 1998). Conventional regression analysis will underestimate the relationship when nonlinear relationships are present, i.e.,  $R^2$  underestimates the variance explained overall and the betas underestimate the importance of the variables involved in the non-linear relationship (Malhotra et al. 2007). Substantial violation of linearity implies that regression results may be more or less unusable (Malhotra et al. 2007). The scatter plot of standardized residuals versus the fitted values (see Figure 4.5, Appendix II) for the regression models were visually inspected. The plots did not reveal any systematic pattern, thus providing support for the specified linear relationship, as suggested by (Malhotra et al. 2007).

#### **4.2.4.2.1.3. Normality of the Error Term Distribution**

In terms of this assumption, a check for normality of the error term is conducted by a visual examination of the normal probability plots of the residuals (Malhotra et al., 2007). Malhotra et al. (2007) propose that normal probability plots are often conducted as an informal means of assessing the non-normality of a set of data. According to Hair et al. (1998), the plots are different from residuals plots in that the standardized residuals are compared with the normal distribution. In general, the normal distribution makes a straight diagonal line, and the plotted residuals are compared with the diagonal (Hair et al., 1998). If a distribution is normal, the residual line will closely follow the diagonal (Hair et al., 1998). Malhotra et al. (2007) explain that the “correlation coefficient” will be near unity if the data fall nearly on a straight line. The “correlation coefficient” will become smaller if the plot is curved. The normality probability plots were plotted to assess normality (see Figure 4.3, Appendix II). The P-P plots were approximately a straight line instead of a curve. Accordingly, the residuals were deemed to have a reasonably normal distribution, as suggested by Hair et al. (1998).

#### **4.2.4.2.1.4. Homoscedasticity of the Error Terms**

Hair et al. (1998) identify homoscedasticity as homogeneity of variance. This assumption is referred to as the description of data in which the variance of the error terms ( $e$ ) appears constant over the range of values of an independent variable. The assumption of equal variance of the population  $\varepsilon$  (where  $\varepsilon$  is estimated from the sample value,  $e$ ) is critical to the proper application of linear regression. When the error terms have increasing or modulating variance, the data are considered as heteroscedastic (Hair et al., 1998). In contrast, Maddala (2001) explains two basic consequences of heteroscedasticity: (1) the least squares estimators remain unbiased, but inefficient, and (2) the estimates of the variances are biased. This contributes to underestimation of the true variance of the 101 ordinary least squares estimator, influences the confidence intervals, and invalidates the tests of significance of the independent variables. Hair et al. (1998) show that heteroscedastic variables can be remedied through data transformations similar to those used to reach normality. In addition, Hair et al. (1998) indicate that data transformations provide an approach to modifying variables for one of two reasons: (1) to correct violations of the statistical assumptions underlying the multivariate techniques, or (2) to improve the relationship (correlation) between variables. In general, heteroscedasticity is the result of non-normality of one of the variables, and the correction of the non-normality remedies the unequal dispersion of variance (Hair et al., 1998). The error terms were expected to have equal variances. In the scattered residual plots (see Figure 4.4, Appendix II), the residuals scattered randomly about the zero line and did not exhibit a triangular-shaped pattern, thus providing sufficient evidence to satisfy the assumption for homoscedasticity of the error terms.

#### 4.2.4.3 Regression Results of the Effect of product differentiation strategy on bank computations

**Table 4. 10** Regression Results of the Effect of product differentiation strategy on bank computations

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.454 <sup>a</sup>	.207	.193	.31381	.207	14.970	4	230	.000
a. Predictors: (Constant), product process differentiation, Product market differentiation, Product cost differentiation, Product distribution channel differentiation									
b. Dependent Variable: Bank competitive advantage									

**Source: researcher survey finding (2022)**

A multivariate regression model was applied to determine the relationship between influences of product differentiation strategies in achieving competitive advantage in commercial banks in Ethiopia. Adjusted R<sup>2</sup> is called the coefficient of determination and tells us how the achieving competitive advantage of the commercial banks varied with variation in product differentiation strategies which includes product cost differentiation, product distribution channels, product market differentiation and product process differentiation. From table above, the value of R<sup>2</sup> is 0.207. This implies that, there was a variation of 20.7% of achieving competitive advantage varied with variation in product differentiation strategies in the banks at a confidence level of 95%. The study established that there existed a significant goodness of fit between variable as F-test (F=14.97, P=0.00< 0.05). The calculated F=15.931 far exceeds the F-critical of 14.97.

**Table 4. 11 Regression analysis**

Coefficients <sup>a</sup>									
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	2.126	.321		6.633	.000			
	Product cost	.109	.049	.132	2.233	.026	.163	.146	.131
	Product market differentiation	.106	.039	.162	2.749	.006	.123	.178	.161
	Product distribution channel	.180	.028	.383	6.472	.000	.365	.392	.380
	Product process differentiation	.099	.036	.162	2.734	.007	.157	.177	.161

a. Dependent Variable: BANK COMPTATIVE ADVANTAGE

a. Predictors: (Constant), Product Cost Differentiation, Product Distribution Channels, Product Market Differentiation and Product Process Differentiation

b. Dependent Variable: Achieving competitive advantage

**Source: researcher survey finding (2022)**

The established regression equation was;

Y = Independent variable (bank competitiveness)

$\beta_0$  = Constant term

X1 = product cost differentiation

X2= product market differentiation

X3= product distribution channel differentiation

X4=product process differentiation

e =error term

$$Y = 2.126 + 0.132X1 + 0.162X2 + 0.383X3 + 0.162X4 + e$$

Table 4.10, presents the regression results of the relationship of product differentiation strategy and commercial bank of Ethiopia competitive advantage. In terms of the relationship between product differentiation strategy and competitive advantage on the basis of the conceptual model, competitive advantage can be seen as a single dependent variable product cost differentiation product market differentiation, product distribution channel differentiation and product process differential are regarded as independent variables in a linear multiple regression model. The first table in the output includes information about the quantity of variance that is explained by predictor variable. The first statistic, R, is the correlation coefficient between the predictor variable (product differentiation strategy) and the dependent variable (bank competitive advantage). The R was (0.207) at level ( $\alpha \leq 0.05$ ); whereas the model's coefficient of determination, R<sup>2</sup> was (0.454). This is frequently used to describe the goodness-of-fit or the amount of variance explained by a given set of predictor variables. This means the 20.7% bank competitive advantage changeability's or variance results from the changeability in product differentiation strategy, while the remaining 79.3% are explained by other variables out of this model. This lower R<sup>2</sup> value indicated that besides the product differentiation strategy, there are other important variables which lead to banks more competitive. Adjusted R<sup>2</sup> = 0.207 with estimated standard deviation 0.33813, the regression model is statistically significant since the probability level is 0.000.

From the regression equation relative to other variables product distribution channel have highest effect (one-unit change have 38.3% increment) in on achieving competitive advantage of the bank. While product cost differentiation has the lowest effect which is only a single change have 13.2% impact on dependent variable.

At overall level, ANOVA results showed that the influence of product differentiation strategy on organizations' competitiveness of banking industry statistically significant in that the p-value was less than the set value of .05 satisfactions. Which is shown from (see Table 4.17, Appendix II)

The study also established that product distribution channel differentiation had higher influence on achieving competitive advantage as indicated by factor  $r = 0.180$ ,  $P = 0.006 < 0.05$ ,  $t = 6.472$  relative to the other factor. This clearly demonstrated that product differentiation strategies had significant positive influence in achieving competitive advantage in the commercial bank of

Ethiopia. This implied that enhancing product differentiation strategies through, product distribution channels, product market differentiation and product process differentiation would increase bank achieving competitive advantage as the results were statistically significant with a P Value= 0.04, 0.006 and 0.00, 0.007 < 0.05. Therefore, product differentiation strategies are critical in improving banks' achieving competitive advantage. The findings concurred with Kemppainen and Vepsäläinen (2003) who revealed that a low-cost or cost leadership strategy effectively led to efficiently implementation of business designs, produces, and markets a comparable product more than its competitors achieving high level of competitive advantage.

## **CHAPTER FIVE**

### **5. SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1. Introduction**

In this chapter, an attempt has been made to present the conclusions, summary and recommendations. At the end of the chapter, limitations and suggestions for future research are discussed.

#### **5.2. Summary and Conclusion**

The purpose of this study was to investigate the role of product differentiation strategy on the commutative advance of commercial bank of Ethiopia. This study needs that commercial bank managements have to develop various policies to get competitive advantage in the banking industry. The analysis of results revealed that there is a significant positive relationship between product differentiation strategy and competitive advantage of commercial bank of Ethiopia.

Based on the survey, study and the results from data analysis and findings of the research, one can safely conclude the following, based on the objective of the study; the study concluded that product differentiation strategy have positive impact to achieve competitive advantage in banking industry.

Commercial bank of Ethiopia is the leading inclusive bank in Ethiopia. The study concluded that financial institutions customer focused bank pricing strategy are better positioned to use pricing as a competitive advantage across market and customer segments, as well as the entire portfolio of deposit, lending and transaction products and services.

Improvement in pricing will have impact of cost improvement. Product cost differentiation prices for bank products play a central role in the consideration to switch banks. The study concluded that a low-cost or cost leadership strategy is effectively implemented when the business designs, produces, and markets a comparable product more efficiently than its competitors.

The study concludes that commercial bank of Ethiopia properly put to use the information technology to achieving competitive advantage. The adoption of technology in banking sector is owing to the fact that, linguistic barriers needed to be put to an end.

Bank has adopted technology which has eased communication during transaction, fostered customer-bank relationship, increased customer satisfaction, improved operational efficiency, reduced the running cost, reduced transaction time, given banks competitive edge, provided security to investors fund and promotion of other financial services. The study concluded that for long-term profits in the banks is influenced by the continuously giving customers the products to their satisfaction and the creation and optimization of process therefore goes beyond tools and practices.

### **5.3. Recommendations**

From the findings, it is crucial to emphasize on need to engage in product designing and development. Various financial products are designed by the commercial banks to suit different categories of customers in Ethiopia. The study recommends that strategic leadership of commercial banks should consider adopting product differentiation. The study findings revealed that differentiation strategies are the most dominant generic strategies adopted by commercial banks. The study recommend that Banks should enhance use of ATMs, training and consulting, agency banking and fund transfer services, Voluntary savings and Credit card banking services to lower the cost of bank transaction. The studies recommend that banks should offer financial services such as standing order payments, foreign exchange transactions services influence achieving competitive advantage.

The study recommend that commercial banks should adopt effective process of delivering financial product such as through agency banking, mobile phone banking, use of RTGS and internet banking distribution channels, POS payment & international gateway payments, use of retail network (branches) ATM and mobile banking distribution channels.

Further the banks that should have effective distribution channels for the products, adopted alternative channels in terms of service away from banking hall to offer bank products and services.

Human resources positively influence delivery of bank products to the market to a very great extent. The banks' multiple payment channels including international cards gateway, use of high skilled human resource and the bank location in areas where there are no competitor banks are product distribution channels influencing competitive advantage.

Bank distribution channels infrastructures enhance the bank performance, use of mobile banking attract more customers than competitors in the market, use of RTGS improve level of Non-Funded income level, bank use ATMs increasing bank returns and establishment of the huge branch network influence competitive advantage.

The study recommend that Banks should focus on differentiating it products based on marketing such as segmentation to achieve bank competitiveness, marketing improve bank sales, marketing lead to designing of customized financial product that meet customer expectations and the bank gain more market share due to brand marketing.

The study recommends that banks should consider the bank's quality of service delivery and banks' management is committed toward improved quality of the bank product suit different market needs to attract more customers, increase customer base.

The study recommend that banks should enhance adoption of technology in banking eased communication during transaction, fostered customer-bank relationship, increased customer satisfaction, improved operational efficiency, reduced the running cost, reduced transaction time, given banks competitive edge, provided security to investors fund and promotion of other financial services.

The long-term profits earning in the banks is influenced by the continuously giving customers the products to their satisfaction and the creation and optimization of process therefore goes beyond tools and practices.

#### **5.4. Limitations and Suggestion for Future Research**

The following section is intended to address some of the limitations surrounding this study so they may be eliminated in future research. One of the primary limitations for this study is the outcome of the study is solely dependent on the individual responses of the respondents that participate in the study. Moreover, as the sample is small and selected using non probability

sampling technique, the results might not be generalizable beyond the specific population from which the sample is drawn. This study employed the cross sectional data and it is difficult to determine the time series link across variables. Hence, the research result may differ if it is conducted in other time.

The topic was a good one but because of its limitations, there is a need for further research. As evident from the finding section that the study was conducted in commercial bank of Ethiopia only, applicability of the results in other bank may result differently. Further, as the study is conducted in the banking industry, application of the same in other industries, like; education, hotel, and health may not come up with the same findings. Thus, the analysis and discussion based on the perceptions of the sample respondents may vary if the sample was collected at a different time of year and from a different geographic region.

Moreover, different sampling methods (e.g. personal interviews, random sampling) may also add insight into. Because the study did not consider employees who provide the services to customers; further research could be to study relationship among, job satisfaction, service quality and customer satisfaction to see if satisfaction level of employees is related to bank competitiveness.

Finally, since the research result indicted that only 20% of competitiveness of commercial bank of Ethiopia affected by product differentiation strategy the researchers also suggest involving other strategic variables such as customer relationship management, public trust value and service excellence in the further research because such variables may affect the competitiveness in banking industry,

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## APPENDIXES I

### SURVEY QUESTIONNAIRE TO BE FILLED BY RESPONDENTS

#### Dear Respondents:

I am currently in the process of writing my research for the completion of a Master's degree in Marketing Management under the support of the Addis Ababa University, School of Commerce Department of Marketing Management.

The purpose of this questionnaire is to assess impacts of product differentiation strategy on competitions in selected Banking Industry in Ethiopia. In case of selected banking industry in Ethiopia. It will be appreciated if you could answer all the questions in the attached questionnaire. The questions are related to the impacts of product differentiation strategy on competitions.

I would like to thank you in advance for your cooperation and for scarifying your valuable time. By not placing your name on the questionnaire your responses are kept anonymous and no one will be able to identify you as a respondent in this study.

Thank you!

#### Part I: Basic Demographic information- filled by selected respondents from Employees of the bank

**Instruction:** Please indicate the following by ticking (√) on the spaces in front of the response options:

1. What is your Gender?

A. Male

B. Female

2. Which of the following Age categories describes you?

A. Under 25

C. 35-55 years

B. 25-35 years

D. Above 55 years

3. Educational Qualification:

A. College Diploma

C. Master's Degree

B. BA/BSc Degree

D. Other \_\_\_\_\_

4. Which of the following categories best describes your current position?

- A. Director                       C. Team leader   
 B. manager                       D. Other \_\_\_\_\_
- 

5. For how long have you served the bank?

- A. 0- 1 yr.       B. 2-10yrs       C. 11-20yrs       D. 21 and above

**Part II: Product cost differentiation in achieving competitive advantage**

**Instructions:** Now please tell me how you feel and think about Product cost of the bank. Put a “√” in the appropriate box/ alternative that best describes your level of agreement or disagreement regarding Product cost of the bank by the following statement.

**Table 4. 12 Questioner for Product cost differentiation in achieving competitive advantage**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree (SD)	Disagree (DA)	Neutral (N)	Agree (A)	Strongly agree (SA)

No	Items	Response				
		SD	DA	N	A	SA
1	Products reengineering led to production of reliable financial service delivery channels					
2	The value of bank product led to superior bank performance in the market					
3	The bank offers financial mix at lower charges					
5	Lower bank products attract and increase bank customer base					
6	The different bank products are offered at one banking branch as a one stop shop					
7	Low cost led to product of quality financial products					
8	Bank product are designed as per customer need reducing failure costs					

### Part III: Product market differentiation influence achieving competitive advantage

**Instructions:** Now please tell me how you feel and think about marketing of the bank. Put a “√” in the appropriate box/ alternative that best describes your level of agreement or disagreement regarding the bank marketing activity by the following statement.

**Table 4.12:** Questions for Product market differentiation influence achieving competitive advantage Instructions

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree (SD)	Disagree (DA)	Neutral (N)	Agree (A)	Strongly agree (SA)

<b>No</b>	<b>Items</b>	<b>Response</b>				
		<b>SD</b>	<b>DA</b>	<b>N</b>	<b>A</b>	<b>SA</b>
<b>1</b>	The company undertakes promotion to a very great extent					
<b>2</b>	The bank products were promoted to a great extent					
<b>3</b>	Marketing improve sales					
<b>4</b>	Brand communication boost product awareness					
<b>5</b>	Segmented marketing has been adopted by the company					
<b>6</b>	The company heavily invest on electronic and print media promotions					
<b>7</b>	Company apply technology market positioning portfolio					
<b>8</b>	Marketing lead to designing of customized products					

**Part V: Product distribution channels achieve competitive advantage**

**Instructions:** Now please tell me how you feel and think about the bank distribution channel. Put a “√” in the appropriate box/ alternative that best describes your level of agreement or disagreement regarding distribution channel of the bank by the following statement.

**Table 4. 13** Questions for Product distribution channels achieve competitive advantage

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree (SD)	Disagree (DA)	Neutral (N)	Agree (A)	Strongly agree (SA)

No	Items	Response				
		SD	DA	N	A	SA
1	The bank use ATMs increasing bank returns					
2	Use of RTGS improve level of Non-Funded income level					
3	Use of high skilled human resource					
4	The bank location in areas where there are no competitor banks					
5	The bank infrastructures enhance the bank performance					
6	Multiple payment channels including international cards gateway					

**Part VI: Product process differentiation influence achieving competitive advantage**

**Instructions:** Now please tell me how you feel and think about Product process of the bank. Put a “√” in the appropriate box/ alternative that best describes your level of agreement or disagreement regarding Product process of the bank by the following statement.

**Table 4. 14 Questions Product process differentiation influence achieving competitive advantage**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree (SD)	Disagree (DA)	Neutral (N)	Agree (A)	Strongly agree (SA)

No	Items	Response				
		SD	DA	N	A	SA
1	The bank adapts to the regulations					
2	Effective management of competition in the market					
3	Resolve risks facing employees before they occurred					
4	The top management is supportive and committed toward achieving best returns					
5	The bank management focus on integration of initiatives into the bank’s strategy					
6	Promote credibility within the bank					
7	Enhanced cooperation from bank departments					
8	Bank enhance staff motivation					

## Part VII: Bank competitive advantage related questions

**Instructions:** Now please tell me how you feel and think about Product process of the bank. Put a “√” in the appropriate box/ alternative that best describes your level of agreement or disagreement regarding Product process of the bank by the following statement.

**Table 4. 15 Bank competitive advantage related questions**

<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Strongly disagree (SD)	Disagree (DA)	Neutral (N)	Agree (A)	Strongly agree (SA)

No	Items	Response				
		SD	DA	N	A	SA
1	Low charge of bank product led to increase in bank market share					
2	The company gain more market share due to brand marketing					
3	Product marketing differentiation influence competitive advantage of the company					
4	The use of mobile banking attracts more customers than competitors in the market					
5	The bank telecommunication technologies upgrade influence bank competitiveness					
6	Establishment of the huge branch network attract more customer					
7	The bank telecommunication technologies upgrade influence bank					

**APPENDIXES II:**  
**Reliability Measurements**

**Table 4. 16 Measure of Internal Consistency- Cronbach's Alpha**

Variables	Number of items	Cronbach's alpha
Product cost differentiation	7	0.712
Product market differentiation	8	0.708
Product distribution channel differentiation	6	0.755
Product market differentiation	8	0.732
Bank competitive advantage	7	0.809

Source: Researcher's Survey Finding (2022)

**Table 4. 17 Pearson Correlation Matrix**

Correlations						
		PRODUCT COST	PRODUCT MARKET DIFFERENTIATION	PRODUCT DISTRIBUTION CHANNALE	PRODUCT PROCESS DIFFERENTATION	BANK COMPTA TIVE ADVANT AGE
PRODUCT COST	Pearson Correlation	1	.011	.036	.096	.163 <sup>*</sup>
	Sig. (2-tailed)		.866	.587	.140	.012
	N	235	235	235	235	235
PRODUCT MARKET DIFFERENTIATION	Pearson Correlation	.011	1	-.100	-.013	.123
	Sig. (2-tailed)	.866		.125	.844	.059
	N	235	235	235	235	235
PRODUCT DISTRIBUTION CHANNALE	Pearson Correlation	.036	-.100	1	-.038	.365 <sup>**</sup>
	Sig. (2-tailed)	.587	.125		.558	.000

	N	235	235	235	235	235
PRODUCT PROCESS DIFFERENTIATION	Pearson Correlation	.096	-.013	-.038	1	.157*
	Sig. (2-tailed)	.140	.844	.558		.016
	N	235	235	235	235	235
BANK COMPTATIVE ADVANTAGE	Pearson Correlation	.163*	.123	.365**	.157*	1
	Sig. (2-tailed)	.012	.059	.000	.016	
	N	235	235	235	235	235
*. Correlation is significant at the 0.05 level (2-tailed).						
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Researcher's Survey Finding (2022)

Table 4. 18 Model fitness result

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.897	4	1.474	14.970	.000 <sup>b</sup>
	Residual	22.649	230	.098		
	Total	28.546	234			
a. Dependent Variable: BANK COMPTATIVE ADVANTAGE						
b. Predictors: (Constant), PRODUCT PROCESS DIFFERENTIATION, PRODUCT MARKET DIFFERENTIATION, PRODUCT COST, PRODUCT DISTRIBUTION CHANNALE						

Table 4. 19 Regression Report

Model Summary <sup>b</sup>									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.454 <sup>a</sup>	.207	.193	.31381	.207	14.970	4	230	.000
a. Predictors: (Constant), PRODUCT PROCESS DIFFERENTIATION, PRODUCT MARKET DIFFERENTIATION, PRODUCT COST, PRODUCT DISTRIBUTION CHANNALE									
b. Dependent Variable: BANK COMPTATIVE ADVANTAGE									

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations			Collinearity Statistics		
	B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF	
1	(Constant)	2.126	.321		6.633	.000					
	PRODUCT COST	.109	.049	.132	2.233	.026	.163	.146	.131	.989	1.011
	PRODUCT MARKET DIFFERENTIATION	.106	.039	.162	2.749	.006	.123	.178	.161	.989	1.011
	PRODUCT DISTRIBUTION CHANNALE	.180	.028	.383	6.472	.000	.365	.392	.380	.987	1.013
	PRODUCT PROCESS DIFFERENTIATION	.099	.036	.162	2.734	.007	.157	.177	.161	.989	1.012

a. Dependent Variable: BANK COMPTATIVE ADVANTAGE

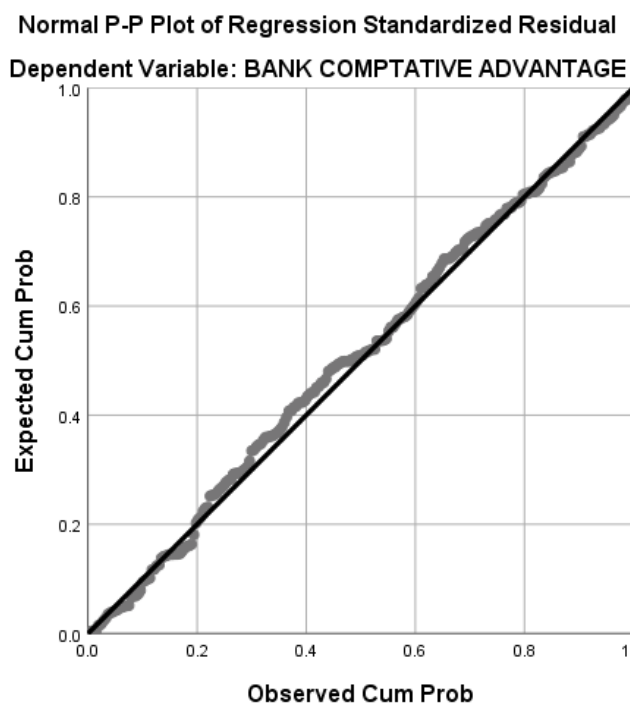


Figure 4.4: Normality test

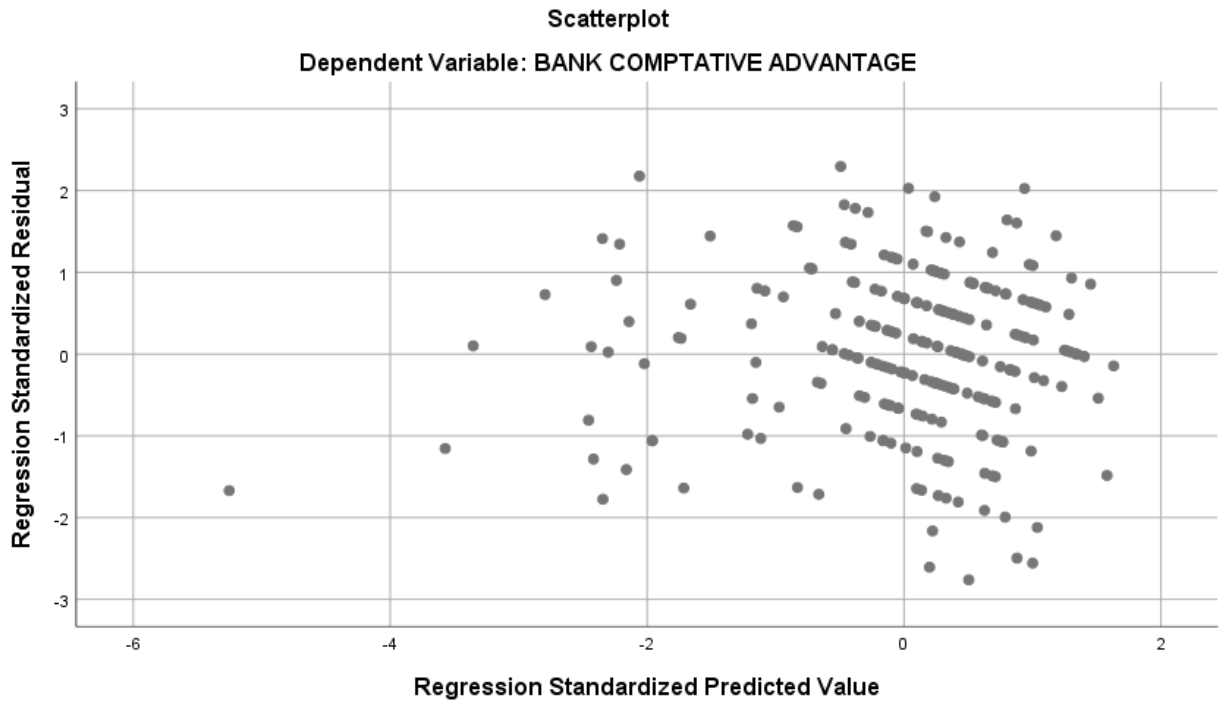


Figure 4.5 Homoscedasticity