



**Addis Ababa University**  
**Collage of Business and Economics**  
**Department of Management**

**An Assessment of the Effectiveness of Competitive Strategies of Private Commercial Banks in Ethiopia: The Case of Dashen Bank and Awash International Bank**

**A Thesis Submitted to School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Executive Masters of Business Administration**

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This is to certify that the project research prepared by Tilahun Kifle Taye, entitled: An Assessment of the Effectiveness of Competitive Strategies of Private Commercial Banks in Ethiopia: The Case of Dashen Bank and Awash International Bank and submitted in partial fulfillment of the requirements for the degree of Executive Master of Business Administration complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

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## Declaration

I declare that this project work is my original work towards the Executive Masters of Business Administration and has not been submitted for any Degree or Diploma in any University. I have undertaken it independently with the advice and suggestions of project advisor, Dr. Zewdie Shibire. To the best of my knowledge, all sources of materials used for the study have been duly acknowledged.

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## List of Abbreviations

AIB	Awash international bank
AVG	Average
DB	Dashen Bank
EPS	Earnings per share
SD	Standard deviation
SPSS	Statistical Package for Social Science

## Abstract

*The banking industry has been facing strong challenges due to competition. After the establishment of private banks in the country, the industry has been characterized by adoption of modern technology and huge branch expansion. What is more is that the sector is highly regulated by the government through the central bank known as “National Bank of Ethiopia”. The banks are therefore under pressure to sustain their competitive position. This situation has, therefore, entailed the banks to design their competitive strategies in a manner to enable them become superior performers in their industry. The purpose of this study was to assess the effectiveness of the generic competitive strategies adopted by Awash International Bank and Dashen Bank. The research also tries to describe the effect of generic strategies adopted by the banks under study on their performance. A case study design was used to undertake the research. The target population for the study was management staff of both banks located in Addis Abeba. The research used a structured questionnaire to collect primary data. The research also used secondary source documents in reviewing the actual performance of the banks under study to assess the effectiveness of the generic strategies on their performance. The data gathered then analyzed using descriptive statistics based on summarized comparisons using percentages, ratios with the help of a computational software SPSS. The findings of this study have suggested that the banks under study are facing challenges due to competition and the majority of the respondents indicated that their bank applied generic strategy to mitigate the challenge. The findings also indicated that the two banks account for one third of the private banks market share in terms of total asset, net income and paid up capital. According to the research findings the significant challenges identified while implementing competitive strategies were growing needs of customers, imitation of banking services, unethical move and loss of skilled employees to competitors. The findings show a significant relationship between the strategies adopted by Awash International Bank and Dashen Bank vis a vis the their performances with respect to the following performance indicators: total asset growth as compared to the industry growth, net income growth as compared to the industry growth, earnings per share as compared to the industry earnings per share. The outcome of the study revealed that there is a positive association between the adopted competitive strategies and performance. The banks under study need to pursue mixed generic strategy to have a better performance.*

**Key Words:** Generic Strategies and Performance

# Chapter One: Introduction

## 1.1 Background/ Rationale of the Study

The business of banking is an intermediary financial service business that undertakes to engage in dealing with others money. The business of banking, in its widest sense, is to collect in capital resources that is either money or can readily be turned into money, and upon the capital so collected, to build up by proper management and machinery the credit which will extend and enlarge the usefulness to the community of its actual money capital. Banks are constituted to make capital circulate, not to lock it up (Huck, 1966). Thus, banks are financial intermediaries that mobilize, allocate and invest the greatest part of the financial resources collected in the form of savings. Accordingly, their performance has substantial consequences on capital allocation, firm expansion, industrial growth and economic development.

Evaluating banks overall performance and monitoring their financial condition in the current competitive and challenging environment and the need to assess efficiency is an important aspect for the banks to sustain a competitive advantage. This is important to depositors, shareholders, potential investors, managers and regulators. If financial institutions become more efficient, then profitability might be improved, greater amounts of funds might be intermediated, better prices, better service quality for consumers, greater safety and soundness, better returns to shareholders and improvement of the overall country's economy, because it forms a major source of the country's savings.(Lydia, 2012)

How well banks perform their intermediary function is of interest not only for the banks management, but also a concern of the economic health of the country. Because of these reasons, banking industries had experienced major regulatory and financial reforms worldwide for over three decades in their operating environments (Shuaib, 2013). The banking environment in Ethiopia like the rest of the world has continued to undergone regulatory and financial reforms. These reforms have brought about many structural changes in the banking sector of the country. To mention a few private Ethiopian investors were allowed to invest in the banking sector which was not possible in the previous regime and some of the functions including administration of foreign currency which was in the hands of the National Bank of Ethiopia was also delegated to commercial banks. Since the issuance of Monetary and Banking proclamation No.84/1994, which allows opening of private banks by Ethiopians up to 2013 a total of 16 private banks were attracted and started operation in the country, making the total number of banks to reach 19 at the end of the year 2014(Semiannual report of Dashen Bank, December 31,2015).

These banks have fuelled an aggressive branch expansion drive to increase branch network of the Ethiopian banking industry. From the year 2007 up to 2014 alone the number of branches increased from 463 branches to 2502 which is a 540% growth (semiannual report of Dashen bank, December 31, 2015). Further observation also reveals that braches of these banks were usually concentrated in a similar area even sometimes they opened branch offices on the same building, provide almost similar type of services and compete for the same type of customers, this makes the competition stiffer and threatens the attractiveness of the sector, which ultimately reduces the profitability of the players in the industry. It exerts pressure on banks to be proactive and to formulate successful strategies that facilitate proactive

response to anticipated and actual changes in the competitive environment (Johnson & Scholes, 2002).

Banks therefore focus on gaining competitive advantage to enable them respond to, and compete effectively in the market. By identifying their core competences, banks are able to concentrate on areas that give them a lead over competitors, and provide a competitive advantage (Pearce & Robinson, 2005). According to Johnson and Scholes (2008), core competences are more robust and difficult to imitate because they relate to the management of linkages within the organizations value chain and to linkages into the supply and distribution chains to gain competitive advantage.

## 1.2 Statement of the Problem

The performance of private banks in the Ethiopian economy has shown growth in terms of expansion, profitability, market outreach, innovative banking services and others year after year since their initial entry in 1994. This growth may not continue when foreign banks are allowed to join the industry. What is more, the regulatory body has been continually issuing successive regulations like the requirement of bond purchase equivalent to 27% of the loan amount at 3% interest rate (NBE Bills purchase directive, 2011), the requirement to maintain non-performing loan below 5% and many others affect the competitive business environment and makes the competition stiffer than before.

The banks response to the competitive and challenging environment by making huge investment in their branch network expansion, adopting new technology and rolling out new products with the intention of beating the standards of their competitors. The need to continuously improve the services and offer low cost innovative services is a great challenge to the

banks given the dynamic nature of the business environmental factors and competition in the industry (number of branches increased from 463 to 2,502 within five years time as cited before). It is important for the banks to invest in the competitive strategies, by emphasizing on the differentiation, cost leadership, focus strategy and other strategies as a response to the competitive environment despite the fact that it is challenging, costly and it will first erode the profits of the banks (Porter, 1980).

To stay in the market competently banks have to protect their competitive position by engaging themselves in a competitive strategy suitable to their situation. Although different studies (Santos 2012; Kulatunga, 2008) have made immense contributions to firm performance in general in relation to internal and external factors, but none has been done on the effectiveness of competitive strategic response of private banks in Ethiopia to affect performance. Guided by these facts, this research is intended to assess the effectiveness of the competitive strategies adopted by Ethiopian private commercial banks by focusing particularly on Dashen Bank and Awash International Bank in response to demand for banking services in Ethiopia.

The motivation of this study is to fill the gap in the literature by providing evidence on generic strategies adopted by Ethiopian private banks based on case study of AIB and DB. To the best of the researcher's knowledge, there is no study undertaken that assess the effectiveness of generic strategies on the performance of private banks in Ethiopia. The researcher is therefore motivated to contribute in enhancing understanding in this area.

### 1.3 Research Questions

- What are the competitive strategies put in place by AIB and DB in response to the competitive environment?
- How effective are the competitive strategies adopted by AIB and DB?

- What are the challenges faced by AIB and DB in implementing the competitive strategies?
- How are the competitive strategies and performance related in the case of AIB and DB?

## 1.4 Objectives of the Research

### 1.4.1 General Objective

The general objective of the study is to assess the effectiveness of competitive strategies adopted by Awash International Bank and Dashen Bank.

### 1.4.2 Specific Objectives

Specifically, this study addresses the following specific objectives:

- To identify the competitive strategies adopted by AIB and DB in response to the competitive environment,
- To assess the effectiveness of competitive strategies adopted by AIB and DB,
- To determine the challenges AIB and DB face in implementing the competitive strategies,
- To establish the relationship between the competitive strategies and performance of AIB and DB.

## 1.5 Scope/Delimitation of the Study

This study will focus on assessment of the effectiveness of competitive strategies adopted by Dashen Bank and Awash International Bank and then make inferences concerning about the private commercial banking sector in

Ethiopia. Since the external environment and the regulation issued by the National Bank of Ethiopia and the forces that prevail in the banking industry are equally applicable to all private banks, the result to be obtained from this study will also represent other private banks operating in the country. Bank performance is affected by many factors like employee engagement, the growth of the general economy and factors outside the banking industry however this study focuses only on performance as a result of using competitive strategies.

## 1.6 Limitations of the Study

The banks under study have their offices in and outside Addis Ababa, however the research is planned to collect data only from Addis Ababa offices due to logistics and finance constraints.

## 1.7 Significance of the Study

The contribution of this study includes the following:

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

- It helps other researchers to assess the effect of competitive strategies put in practice by selected private banks in Ethiopia and its effect on performance of banks.

## 1.8 Organization of the Study

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

# Chapter Two: Literature Review

## 2.1 On Generic Strategies

Porter (1998) states that the nature of competition in one industry depends on the basic competitive factors which consist of the following competitive factors such as new sellers threat, the threat of substitute products, the supplier's bargaining force, the power exerted by the customers in the market and intensity of competition among competitors, whereby they reflect the fact that competition in one industry is so much higher than the existence of current players. Porter (1980): the collective strength of these five competitive forces determines the ability of the firms in an industry to earn, on average, rates of return on investment in excess of the cost of capital. The strength of the five forces varies from industry to industry, and can change as the industry evolves the five forces determine profitability because they influence the prices, costs, and required investment of firms in the industry – the elements of return on investment. All of the above five factors, determine the intensity of competition in industry and profitability with each other, basically identifying the industrial structure is considered as the beginning point for strategic analysis. Within an industry, the differential performance of the firms is function of their relative ability to influence the same five forces.

Michael Porter (1985) considered that in the long-term the extent to which the firm is able to create a defensible position in confronting the five competitive forces for overcoming other competitors of a company in an industry is a major determinant of the success with which it will out-perform its competitors. He proposed “generic strategies” by which a firm can develop a “competitive advantage” and create a defensible position. According to him, the notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and in order to attain competitive advantage the

organization has to make a choice about the type of competitive advantage, it seeks to attain and the scope within which it will attain it.

Competitive advantage according to Porter (1985) is grows from the value created by a firm for customers after subtracting the cost of producing the value. The concern is how to create a value greater than the related cost. Besides, Porter indicated two types of competitive advantages, which were cost leadership and differentiation. Competitive advantage grows out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits. There are two basic types of competitive advantage: cost leadership and differentiation. Any business with a competitive advantage is able to attract more customers than its competitors by having some special factor that no one else possesses (Porter, 1985).

Besanko, Dranove, and Shanley (2000) say “when a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market.” Saloner, Shepard and Podolny (2001) say that “most forms of competitive advantage mean either that a firm can produce some service or product that its customers value than those produced by competitors or that it can produce its service or product at a lower cost than its competitors.”

In view of the above, it is apparent that a firm achieves a competitive edge over its competitors by providing a product/service perceived by the customer to yield greater benefits and value than that of the competitors. In addition, competitive advantage will always result in superior performance by the organization which translates to higher profits. Hence, understanding competitive advantage is an ongoing challenge for decision makers. Historically, competitive advantage was thought of as a matter of position, where firms occupied a competitive space and built and defended market share

(Stalk, Evans and Shulman, 1992). Competitive advantage depended on where the business was located and where it chose to provide services. Stable environments allowed this strategy to be successful, particularly for large and dominant organizations in mature industries. The ability to develop a sustained competitive advantage today is increasingly rare.

A competitive advantage laboriously achieved can be quickly lost. Organizations sustain a competitive advantage only so long as the services they deliver and the manner in which they deliver them have attributes that correspond to the key buying criteria of a substantial number of customers. Sustained competitive advantage is the result of an enduring value differential between the products or services of one organization and those of its competitors in the minds of customers. Therefore, organizations must consider more than the fit between the external environment and their present internal characteristics. They must anticipate what the rapidly changing environment will be like, and change their structures, cultures, and other relevant factors so as to reap the benefits of changing times. Sustained competitive advantage has become more of a matter of movement and ability to change than of location or position (Stalk, Evans and Shulman, 1992).

Competitive advantage is ultimately built and maintained by adding value to customers (Prahalad and Hamel, 1990). Value is added by cost leadership. That is, offering equal quality products or services at a lower cost than competitors, or by differentiation, i.e., offering products or services that are perceived to be unique relative to some important characteristic (Markides and Williamson, 1994). Understanding how each competitively relevant resource and capability affects costs and uniqueness is an important aspect of understanding how, or if, each adds value to the services provided (Duncan, Ginter and Swayne, 1998).

Competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing products that gives the consumer greater benefits and services that justifies a higher price (Porter, 1985). According to porter creating value provides insights into the sources of competitive advantage that he calls” generic strategies”: an overall cost leadership strategy, a differentiation strategy, or a focus strategy for creating a defensible position in the long run and outperforming competitors in a given industry. He argued that by adeptly pursuing the ‘generic strategies’ businesses can attain significant and enduring competitive advantage over their rivals.

The first generic strategy, an overall cost leadership, although not neglecting quality, service, and other areas focuses on gaining competitive advantage by having the lowest cost relative to competitors. A company adopting an overall cost leadership strategy seeks to be regarded as the lowest-price producer in a given industry. This is often achieved by large scale organizations that develop efficiency by reason of their repetitive experience of the tasks involved, the utilization of economies of scale, overhead cost control, having a workforce committed to the low-cost strategy, seizing costly production opportunities along the firm’s value chain and consider outsourcing to other organization with a cost advantage or using their power to leverage lower costs. This type of firm will be targeting a broad market segment. Porter (1985) purports only one firm in an industry can be the cost leader. As a low cost leader, an organization can present entry barriers against new market entrants who would need large amounts of capital to enter the market. The leader then is somewhat insulated from industry wide price reductions (Porter, 1980).

Porter (1980) asserts that in order to outperform competitors, a firm must follow one of the strategies that he calls” generic strategies”: an overall cost leadership strategy, a differentiation strategy, or a focus strategy for creating a defensible position in the long run and outperforming competitors in a given

industry. He argued that by adeptly pursuing the 'generic strategies' businesses can attain significant and enduring competitive advantage over their rivals.

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Cost drivers are structural factors that influence cost and a firm's relative cost position in a value activity depends on its important cost drivers. Cost drivers include economies of scale, learning, pattern of activity utilization, linkages, interrelationships, integration, timing, discretionary policies, location and institutional factors. Cost drivers often interact to determine the cost behavior of a particular value activity hence no one cost driver is a sole determinant of a firm's cost position (Porter, 1985).

Firms under overall cost leadership strategy will be targeting a broad market segment. Porter (1985) purports only one firm in an industry can be the cost leader. As a low cost leader, an organization can present entry barriers against new market entrants who would need large amounts of capital to enter the market. The leader then is somewhat insulated from industry wide price reductions (Porter, 1980).

The second generic strategy is differentiation. When using this strategy, a company focuses its effort on differentiating the product or service offering, tailoring the product or service to the needs of the customer, creating something that is perceived industry wide as being unique, thus permitting the company to command higher than average prices and capture market share. A differentiation strategy does not allow a firm to ignore costs but rather they are not the primary strategic target (Porter, 1980). A firm that can achieve and sustain differentiation becomes the above average performer in an industry if its price premium exceeds the extra cost incurred in being unique. This type of company addresses many market segments in an industry.

Differentiation is driven by uniqueness. Customers are willing to pay a premium price for the added unique values of the products. A firm's uniqueness in a value activity is determined by a series of basic drivers which are the underlying reasons why an activity is unique and without which a firm cannot fully develop means of creating new forms of differentiation or diagnose how sustainable the existing differentiation is (Porter, 1985).

There are many sources of differentiation a firm can utilize. Developing a unique design or brand image, tailoring and customizing products, creativity, product engineering, customer services, and marketing abilities can all form a foundation for a differentiation strategy.

The final generic strategy is focus strategy. It is quite different from others in that it aims at a narrow competitive scope on a particular buyer group, segment of the product line, or geographic market. Focus is about segmenting the industry and serving the narrow niche to the exclusion of others (Porter, 1985). Although the low cost and differentiation strategies are aimed at achieving their objectives industry wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is

developed with this in mind. The strategy rests on the premise that the company is thus able to serve its narrow strategic target more effectively or efficiently than competitors who are competing more broadly.

Focus strategy has two variants- cost focus and differentiation focus. Cost focus aims at achieving cost advantage while differentiation focus is about seeking differentiation in a target segment. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Porter, 1980; 1985). Even though the focus strategy does not achieve low cost or differentiation from the perspective of the market as a whole, it does achieve one or both of these positions vis-a-vis its narrow market target. The firm achieving focus may also potentially earn above-average returns for its industry. Its focus means that the firm either has a low cost position with its strategic target, high differentiation, or both. As we have discussed in the context of cost leadership and differentiation, these positions provide defenses against each competitive force. ).

Small companies, the better ones, usually thrive because they serve narrow market niches. Market focus allows these businesses to compete on the basis of low cost, differentiation and rapid response against much larger businesses with greater resources because focus lets a business “learn” its target customers, their needs, special considerations they want accommodated and establish personal relationships in ways that “differentiate” the smaller firm or make it more valuable to the target customer (Pearce and Robinson, 2005). Focus may also be used to select targets least vulnerable to substitutes or where competitors are the weakest.

The three generic strategies represent three broad types of strategic groups, and thus the choice of strategy “Can be viewed as the choice of which strategic group to compete in” (Porter, 1980). If the firm is failing to develop its strategy

in at least one of the three directions—a firm that is "stuck in the middle"—is in an extremely poor strategic situation. This firm lacks the market share, capital investment, and resolves to play the low-cost game, the industry wide differentiation necessary to obviate the need for a low cost position, or the focus to create differentiation or a low-cost position in a more limited sphere. The firm that is “stuck in the middle” is “almost guaranteed low profitability” (Porter, 1980). It either loses the high-volume customers who demand low prices or must bid away its profits to get this business away from low-cost firms. Yet it also loses high-margin businesses—the cream—to the firms who are focused on high-margin targets or have achieved differentiation overall. The firm stuck in the middle also probably suffers from a blurred corporate culture and a conflicting set of organizational arrangements and motivation system.

## 2.2 Generic Strategies in the Banking Industry

Banks by analyzing their industry, they can gain competitive advantages over other banks operating in the same industry if they can apply appropriate generic strategies suitable to their situation. Michael Porter has identified specific generic strategies for countering the industry forces.

In cost leadership strategy, a bank can decide to become the low cost producer in its industry by charging the lowest price or rates for its services (Porter, 1980). The sources of cost advantage for such a bank may include economies of scale, proprietary technology, preferential access to strategic resources and other factors. A bank under cost leadership strategy must find and exploit all sources of cost advantage as well as be in a position to be an above average performer in its industry to such an extent that it can command prices at or at least near the industry average.

Differentiation is an effective strategy with an effect of enhancing customer satisfaction. By utilizing differentiation strategy, a bank can be unique in its industry or products in areas that are highly valued by its clients. This may involve customized and broad range of product offerings, location of branches, reputation, use of state of the art technology, alternative payment channels like ATM or the possibility of remote access, door to door services and selecting one or more attributes that many buyers in the banking industry perceive as important, and then uniquely positions themselves to meet those needs. This uniqueness is rewarded by charging a premium price. It follows therefore that costs are only added in areas that customers perceive as important which again can relate to any area of the operation (Thompson and Martin, 2005).

Under focus strategy, a bank's utilization of focus strategy implies its choice of narrowing of competitive scope within the banking industry. The focusing bank selects a segment or group of segments in the industry and tailors its strategy to serving them effectively and efficiently to the exclusion of others. Focus strategy may be cost focus or differentiation focus. In cost focus strategy, a bank seeks cost advantage in its target segment while in differentiation focus; a bank seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a target segment and other segments. The target segments must either have buyers with unusual needs or the production and delivery system that best serves the target segment must differ from that of other segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Thomson and Strickland, 1990).

## 2.3 Organizational Performance

The concept of performance in the academic literature has been recognized for long. With the volume of literature on this topic increasing, there appears to be little hope of reaching any agreement on basic terminology and definitions (Venkatraman and Ramanujam, 1986). The question “what drives performance?’ is also at the top of the minds of managers and policy makers, as the first step in understanding superior performance and hence, striving for it. Substantial research efforts have gone into addressing this question, starting from the strategic level and going down to operational details by (Andreas and Starvos, 1997).

The narrow concept of Performance centers on the use of simple outcome based financial indicators that are assumed to reflect the fulfillment of the economic goals of the firm and is referred to as the financial performance, which has been the dominant model in empirical strategy research (Venkatraman and Ramanujam, 1986). Typical of this approach would be to examine such indicators as sales growth, profitability (reflected by ratios such as return on investment, return on sales, and return on equity), earnings per share and so forth. This approach give due focus to financial measurements.

On the other hand a broader conceptualization of business performance would include emphasis on indicators of operational performance (i.e., nonfinancial) in addition to indicators of financial performance. Under this framework it would be logical to treat such measures as market-share, new product introduction, product quality, marketing effectiveness, manufacturing value-added, and other measures of technological efficiency within the domain of business performance (Venkatraman and Ramanujam, 1986).

## 2.4 Empirical Evidence for Porter's Generic Strategies

There are several researchers who have empirically investigated the impact of Porter's generic strategies on the performance of companies. Dess and Davis (1984) examined the performance effects of generic strategies based on a sample of non-diversified manufacturing firms. They found that those firms can be classified into four clusters based on the strategies they adopt: cost leadership, stuck in the middle, focus, and differentiation. In terms of sales growth, the four groups were found to be significantly different from one another. The focus cluster was found to have the highest sales growth, followed by cost leadership, differentiation, and stuck in the middle clusters. In terms of return on total assets, the performance difference was not significant among the four groups. While the higher return was evident in the cost leadership group, the lowest was evident in the focus group.

Hlavacka (2001) examined the performance impact of generic strategies based on a sample of Slovak hospitals. They found that those hospitals could be categorized into four clusters based on the generic strategies they use: focused cost leadership, stuck in the middle, wait and see, and cost leadership. The hospitals identified as "stuck in the middle" were found to adopt on an above average level all three generic strategies – cost leadership, differentiation, and focus. Therefore, according to the author's view, it can better be identified as a group which uses integrated or hybrid strategies. This group outperformed others in three of the four performance measures (ability to retain patients, control operating costs, overall growth in revenue). The cost leadership group outperformed others in relation to return on new services facilities. The poorest performance occurred in the "wait and see" group, which placed average emphasis on cost leadership and low emphasis on differentiation and focus strategies.

Powers and Hahn (2004) examined the performance impact of generic strategies in banking. Their study indicated that banks fall into five clusters based on the type of strategy they used: general differentiation strategy, focus strategy, stuck in the middle, Cost leadership strategy, and customer service differentiation strategy. They found that, overall, firms employing a strategy perform better (in terms of return on assets) than ones that are stuck in the middle. The performance of cost leadership followers was significantly higher than that of stuck in the middle firms. However, other strategy followers could not gain significant performance advantage over the stuck in the middle group.

Allen and Helms (2006) examined the performance impact of generic strategies based on a cross-sectional sample. They found that companies use four generic strategies: product differentiation, cost leadership, focus cost leadership, focus product differentiation. Their analysis revealed that four generic strategies were significant predictors of overall performance.

Chan and Wong (1999) examine banks' competitive strategies and their relationship with performance in a highly internationalized banking center, Hong Kong. The factor analysis results have, by and large, provided support to Porter's three strategy typology. Nevertheless, the empirical findings from the cluster analysis and the subsequent inter-group comparison of performances have cast doubt on Porter's stuck-in-the-middle proposition by demonstrating that banks adopting a multi-strategic approach did outperform other strategically monotonous rivals.

Magaziner and Reich (1982) The empirical research conducted on the global TV set industry in which Japanese firms were able to achieve higher quality and lower cost: both at the same time. This supports the notion that some

businesses can excel both at differentiation and low cost – multi- strategic approach.

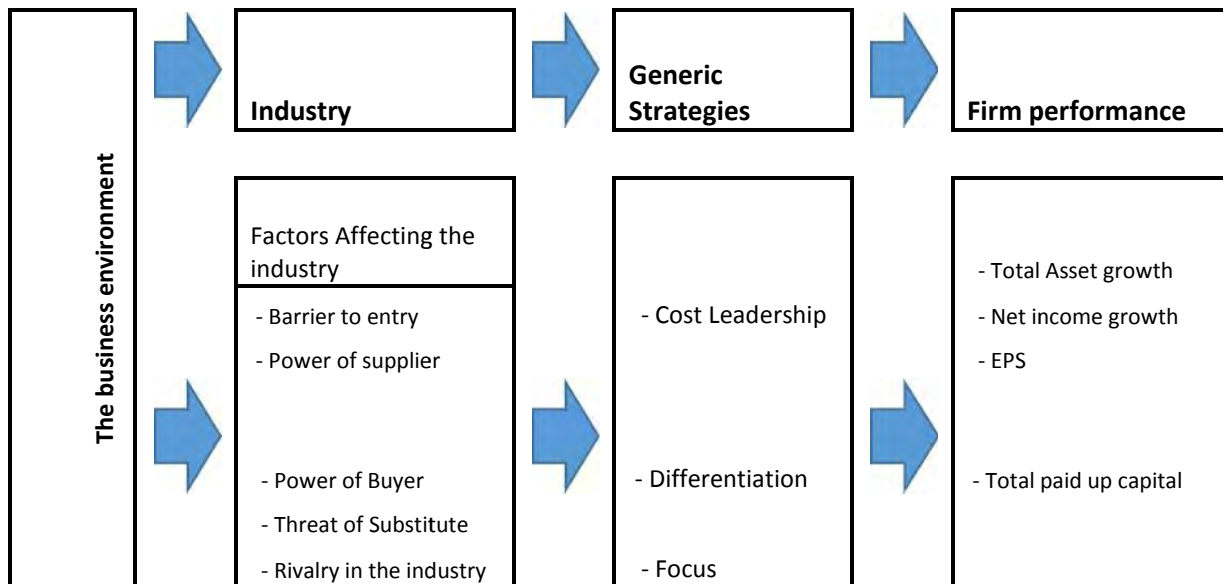
In summary, some researchers (Dess and Davis 1984: Powers and Hahn, 2004: Allen and Helms, 2006) found that firms which adopt only the generic strategies identified by porter (1980) improve firm performance. This group of researchers maintains that viable companies can seek either efficiency or differentiation. The more efficiency is sought by management, the less differentiated the company would be, while greater differentiation would be associated with a less efficient company. This group reasons that the value chain required for a low-cost strategy is qualitatively different from the value chain required for a differentiation strategy. The emphasis of a differentiation strategy is on achieving (even at considerable cost) superior quality and image throughout the value chain, while the emphasis of a low-cost strategy is on lowering cost wherever possible. Because of difficulties in reconciling apparently opposed strategic thrusts, profitable companies tend to compete with one strategy only (Dess and Davis, 1984).

Some other researchers (Hlavacka, 2001: Kim et al., 2004: R.Y.-k. Chan, Y.H. Wong, 1999: Magaziner and Reich, 1982) found the presence of integrated strategies, in addition to generic strategies, which also led to improved performance in those firms. This researchers proposes that both low-cost and differentiation strategies may be simultaneously and profitably adopted by an enterprise. According to this notion, the adoption of a differentiation strategy would entail promoting higher product quality and involve bearing higher costs across a number of functional areas in order to support the differentiation strategy (Wright et.al, 1990). However, higher quality products would presumably lead to greater market demand, allowing the company to adopt a

low cost strategy through the attainment of higher market shares and cumulative volumes of production.

## 2.5 Conceptual Framework

The following conceptual framework is produced to show the relationship between generic strategy and firm performance.



Source: own design based on competitive strategy portrayed on the literature review.

## Chapter Three: Research Methodology

### 3.1 Research Approach

The research under caption has been conducted using mixed research approach; the rationale for combining both quantitative and qualitative method is to better understand a research problem by combining both numeric values from quantitative research and the detail of qualitative research and to neutralize limitations of applying any of a single approach. Since the assessment is conducted on a case basis focused type of sample are needed for having key information in the sample. The research is also planned to describe the relationship between generic strategy and performance by collecting different forms of data and examine them from various angles to construct a clear and meaningful picture of the problem under study.

### 3.2 Data Collection Instruments

In order to establish the effectiveness of generic strategies on the performance of private banks, the study used both primary and secondary data. A closed ended type of questionnaire was also used to collect data. The choice of the instrument was based on the fact that it makes it easier to get adequate and accurate information necessary for the research. Secondary sources of data were also generated through a review of relevant documents. Questionnaires were also distributed to senior employees or key informants who have a duty of drawing competitive strategies and follow the status of its implementation.

The response was believed to help understand the generic strategies adopted by banks and the organizational performance. Interview was also conducted with senior employees to get a clearer picture while reviewing the questionnaire and secondary source documents. Questions in the interview had helped the

researcher to better understand the responses and the facts available on the secondary source document so that the researcher make appropriate analysis of the data.

The review of documents was also help to understand the key facts about the cause and impact of the subject under study. The documents were reviewed by referring most recent information from three years consecutive annual reports, bulletin, web sites and different publications. The document reviews had helped to triangulate the data collected by the questionnaires and interviews.

### 3.3 Target Population

The target populations for this study were senior employees of the two private banks under study: Dashen Bank and Awash international Bank. The researcher purposely selected senior staffs who were working at head office and Addis Ababa branch offices. These employees were targeted on the understanding that their direct involvement on the formulation and implementation of their bank's strategy make them eligible to give the right informed information and answer to the research questions.

### 3.4 Sampling Method and Sampling Size

The banks under study have almost a similar type of management layers. The management group is classified into three distinct management levels which are the top, middle and lower management levels. The responsibility of laying the organization mission is usually the responsibility of top management. The middle management is responsible to lay down in the formulation and implementation of the functional department's strategies and the lower level management is also engaged in the day to day operation or strategic plan implementation. Taking the above facts into consideration the research used a

purposive sampling technique to obtain information from those senior employees of the bank who have most readily or conveniently available information. According to Uma Sekaran (2003) purposive sampling method is confined to specific types of people who can provide the desired information, either because they are the only ones who have it, or conform to some criteria set by the researcher. According to Saunders *et. al.* (2009) unlike probability sampling, there are no rules in non-probability sampling techniques. Rather the logical relationship between your sample selection technique and the purpose and focus of your research is important; generalizations being made to theory rather than about a population. Non-probability sampling involves the selection of subject based on assumption regarding the population of interest, which forms the criteria for selection.

The total number of employees for Dashen Bank at the end of the year 2015 were 4597(Annual report of Dashen Bank, 2015) and the total number of employees for Awash International Bank as at the end of the year 2015 were also 5,847 (Annual report of Awash International bank, 2015). Dashen Bank was organized by having 18 Department offices, 8 district offices and 172 branches. Out of the 8 districts offices and 172 branches 4 of the district offices and 82 branches respectively were located in Addis Ababa ([www.dashenbanksc.com](http://www.dashenbanksc.com)). Awash international bank was also organized by having 21 departments and 223 branches and all the departments and 117 branches were located in Addis. So the total number of senior employees for both banks who resides in Addis Ababa was 242 in total. The research purposely drew sample that were suited for the questions. To ensure appropriate responses were collected, managerial staffs and employees with responsibilities of strategic formulation or implementation functions were considered. Hence primary data is collected from management and employees who have been working at head office of both banks, District offices and branches located in Addis. Taking the above facts into consideration the

research used a proportionate stratified sampling in which each bank was getting a proportional sample size based on their size. Accordingly, 32 samples were assigned to Dashen Bank and 42 samples were assigned to Awash International Bank.

**Table 3.1 Allocation of sample**

	Total no of employees (2015)	Proportionate sample
AIB	5,847	42
DB	4,597	32
Total	10,444	74

### 3.5 Data Analysis Techniques

As discussed above, the research is designed to follow a mixed approach. Hence, both qualitative and quantitative analysis will be used. Data that will be collected using questionnaires is to be checked for completeness and consistency. Thereafter the data is going to be properly categorized which will ultimately facilitate the analysis using descriptive statistics based on summarized comparisons using percentages, ratios with the help of a computational software SPSS. Thereafter, correlation analysis will be done to determine the relationship between the competitive strategy and performance of private banks. The analyzed data will be presented in graphs and tables.

### 3.6 Reliability

Reliability is about how consistent a researcher's measurements are (Cook and Campbell, 1979). To ensure the reliability of research primary data is collected from staffs with responsibilities of strategy formulation and implementation functions. The data so collected through questionnaire was supported by document analysis which strengthens reliability.

### 3.6 Ethical Consideration

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

## Chapter Four: Presentation, Analysis and Interpretation of Findings

### 4.1 Introduction

The current study sought to investigate the impact of generic strategies on performance of private commercial banks in Ethiopia. A combination of both quantitative and qualitative techniques was used in data collection. Out of the 74 questionnaires that distributed to the respondents, 62 of them, representing 84% of the questionnaires were returned completed. A number of different analysis were carried out to explore data and to examine existing relationships. The first part of the analysis related to the respondents profile was analyzed by employing content analysis. Descriptive analysis on generic strategies was performed to identify the usage level of each strategy and the priority given by respondents to each generic strategy by the banks under study. An analysis was also performed to identify the components associated with the three generic strategies. A descriptive statistics were also used to analyze data pertaining to the four objectives of the study. Computation of frequencies and percentages, standard deviations and mean scores were used in data presentation. The information is presented and discussed as per the objectives of the research under study.

### 4.2 Demographic Data

#### **Gender of the respondents**

The descriptive analysis of respondents revealed that 63% were males while 37% were females as shown in the Table 4.1. This shows that the two banks staff composition for management level still dominated by males.

**Table 4.1 Gender of respondents**

Gender of respondents	Frequency	Percentage
Male	39	63%
Female	23	37%
Total	62	100%

Source: Survey result, 2016

**Levels of education**

Analysis of educational background revealed that more than 96% of the respondents had attained education level of first and second degree as shown in the table 4.2 below while only 4% of the respondents attained up to a college level diploma level education. By observing the educational background of employees enrolled in the two banks, we can deduce that the staffs do have either the required skill on the area of generic strategy, strategic formulation and implementation or they can easily fit on the area of strategic management.

**Table 4.2 Level of education**

Educational Qualifications	Frequency	Percent	Cumulative Percent
Master Degree and above	8	12.90%	12.90%
1st Degree	52	83.87%	96.77%
Others	2	3.23%	100.00%
Total	62	100.00%	

Source: Survey result, 2016

### **Positions held in the bank**

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

**Table 4.3 Position held in the bank**

	Frequency	Percent	Cumulative Percent
Executive level	2	3.23%	3.23%
Middle classes manager	14	22.58%	25.81%
Line manager	18	29.03%	54.84%
professionals	21	33.87%	88.71%
Others	7	11.29%	100.00%
Total	62	100.00%	

Source: Survey result, 2016

The findings in table 4.3 above show that 2 of the respondents were holding a position at executive level, 14 were holding a position at middle management level, 18 were holding a line managerial post and 29 were holding professional and other clerical jobs. These show that the sample covers the formulators of the strategy under study and the implementers of the strategy. All of the respondents were engaged in the strategic formulation and implementation process in one way or another.

### **Respondents working experience in the current position**

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

**Table 4.4 Working experience in the current position**

Years of Experience	Frequency	Percent	Cumulative Percent
1 - 5	37	60%	60%
6-10	16	26%	85%
11 -15	2	4%	89%
> 15	7	12%	100
Total	62	100	

Source: Survey result, 2016

The findings in the table 4.4 above show that (60%) of the respondents had been in their current positions for the period of 1 to 5 year, (26%) of the respondents had been in their current positions for a period of between 6 to 10 years, (4%) of the respondents for between 11 to 15 years and only (12%) of the respondents had been in their current position for more than 16 years. The responses show that majority of the respondents had been in their current positions for at least 1 year. The responses were thus expected to be objective.

### 4.3 Banking Sector Specific

#### **Challenges in the banking sector**

The respondents were asked whether their bank have faced challenges due to competition or not. All of the respondents believe on the existence of challenges due to competition. These respondents were also believes that the competition are mainly due to high expectation from customers, the marketing environment, government regulations, high cost of doing business and under

developed infrastructures. The responses are summarized and presented in table 4.5 below.

**Table 4.5 Challenges in the banking sector**

Challenges	Mean	Standard deviation
High expectation from customers	4.23	1.02
Government regulations	4.13	0.99
High cost of doing business	3.53	1.12
Marketing	4.27	0.70
High level of competition	4.46	0.72
Under developed infrastructures	3.80	1.01
Overall mean	4.09	
overall standard deviation		0.96

Source: Survey result, 2016

High level of competition coupled with high expectation from customers forces these banks to invest more on advertisement and put a flexible marketing strategy in place. From the discussions I had with the bank officials I learnt that their customers are now expecting more from these banks and start to bargain on the type of services they like and banks are now forced to change their products to meet the needs of their valuable customers. In the process of maintaining existing customers and to recruit more potential profitable customers, the banks are incurring a huge cost which is becoming a challenge to the players in the industry.

## **The severity of competitive forces in the banking sector**

According to the respondents rivalry in the banking industry, barrier to entry and the power of customers were believed to affect the competition in the banking sector. Since private banks are competing for the same type of limited resources by opening branch offices almost next to each other shows the intensity of their rivalry. The requirement of a huge paid up capital to start a banking business were cited as obstacle for new entry (in a likert scale developed for the purpose 5 Very intense and 1 implies very low). While the competition becomes stiff customers were setting their need rather than buying a standard product from these banks.

**Table 4.6 Competitive forces in the banking sector**

	Mean	Standard Deviation
Barriers to entry	4.33	1.09
Rivalry in industry	4.38	0.97
Threat of substitute	3.77	1.11
Power of buyers	4.19	0.75
Power of suppliers	4.00	0.95
Overall mean	4.14	
Overall SD		1.00

N.B High barrier represented by 5 and low represented by 1.

Source: Survey result, 2016

## **Competitive strategies put in place**

To withstand the competition in the banking industry, the respondents were requested to show the strategy adopted by their bank as outlined under table 4.7 below. Accordingly 64% of the respondents indicated that mixed strategy were applied by their bank, 44% of the respondents have indicated

differentiation strategy, 16% of the respondents indicated focus strategies and another 16% also indicated that cost leadership strategy were adopted by their bank. This is an indication that the banks under study uses mixed strategy mostly in response to competition followed by differentiation strategy.

**Table 4.7 competitive strategies applied by banks**

Strategies put in place	% of respondents
Differentiation	44%
Cost leadership	16%
Focus strategy	16%
Mixed strategy	64%

Source: Survey result, 2016

In order to identify the specific competitive strategies adopted by the banks under study, the respondents were provided with a listing of possible strategic practices practiced by their bank as adapted from Dess and Davis (1984).The respondents were asked to indicate the extent to which their respective work stations applied each of the listed strategic practices. The responses are summarized and presented below.

## Use of differentiation strategy

To what extent the bank had applied differentiation strategy to withstand competition had been measured by the extent the bank uses various differentiation strategies as outlined in the table 4.8 below.

**Table 4.8 Variables on differentiation strategy**

Variables of differentiation	Mean	Standard Deviation
Use of innovative marketing techniques	4.12	1.05
New products/service development	4.12	1.01
Reputation for quality service or technological leadership	4.28	1.06
Strong brand creation	4.13	1.03
Attract highly skilled and creative employees	3.92	1.29
Strong capability in basic research	3.63	1.24
Use of multichannel or modern technology to reach to customers	4.12	0.97
Long tradition in the industry or unique combination of skills	4.12	0.88
Overall mean	4.06	
Overall S.D		1.07

Source: Survey result, 2016

Among the listed differentiation strategy, most respondents support reputation for quality service or technological leadership as their prime source to get differential advantage. This is followed by strong brand creation which is associated with the unique banking service and reputation in the eyes of customers, new product or service development, use of innovative marketing techniques, use of multichannel or modern technology and unique skill in the industry.

### **On overall cost leadership strategy**

The respondents were also requested the extent to which their bank adopted a cost leader strategy to bit the competition. For private banks to be a cost leader in the market, they must be able to offer lower prices to customers compared to competitors with a similar service. The possible overall cost leadership strategies applied by private banks under study are listed in table 4.9 below.

**Table 4.9 Variables on cost leadership strategy**

Variables on Cost leadership	Mean	Standard Deviation
Pricing below the competitors	3.79	1.22
Tight cost control	3.92	1.04
Use of low cost channel to reach to customers	3.88	0.88
Structured organization and responsibilities	4.32	0.85
Strong process engineering skills	3.91	1.08
Intense supervision of employees	3.80	0.87
Keeping lower overheads than the competitors	3.84	0.75
Overall mean	3.92	
Overall S.D		0.96

Source: Survey result, 2016

Most of the respondents agree that restructuring organizational structure and responsibilities had an impact in reducing costs significantly. The other factors most considered by the respondents in relation to overall cost reduction strategy were tight cost control and process reengineering skills. According to the respondents structured organizations, process reengineering were easily achieve operational efficiency by reducing unproductive costs and creating economics of scale which helps the bank to achieve competitive cost advantage.

### **On Focus strategy**

The respondents were also requested the extent to which their bank adopted a focus strategy as a competitive strategy. Focus strategy entails tailoring the products of a specific segment exclusively to ensure that their specific needs are fully satisfied and expected to attend specific market niches that require special features or prices. The focus strategies applied by private banks under study are listed in table 4.10 below.

**Table 4.10 Variables on Focus strategy**

Variables on Focus strategy	Mean	Standard deviation
Narrow limited range of services/products	3.00	1.25
Serving specific geographic markets	2.92	1.47
Products offered in lower priced market segments	3.00	1.09
Products offered in high priced market segments	3.00	1.38
Serving a specific class of customers	3.00	1.32
High level of segmentation to narrow group of customers	3.40	1.35
Overall mean	3.06	
Overall S.D		1.31

Source: Survey result, 2016

Among the variables indicated on the focus strategy asked to the respondents to measure the extent of focus strategy applied by their banks, most of them believe that their banks were using high level of market segmentation to narrow group of customers basically to gain focus advantage. They had also evenly responded that the banks were attempting to offer their products in high priced and low priced market segments to meet niche market needs. Thirdly they believed on having limited range of services or products to gain better market share.

### **Banks initiatives to change elements of competitive strategies**

The respondents were also requested the extent to which their bank takes the initiatives to change elements of competitive strategies for improvement of their banks performance. Most of the respondents indicated that their bank were working hard to have a good Bank to customer relationship, efficiency of internal control, enhancement of service delivery, capital build up to the required level needed in the market, working to have a good market share, maintain the banks reputation and working on capacity building to make their employee more capable. Table 4.11 shows the banks initiative to change.

**Table 4.11 Change initiatives**

Change initiatives	Mean	Standard deviation
Employee capacity and skill development	4.12	1.05
Bank reputation	4.17	1.01
Innovative idea generation capacity	3.67	1.13
Ability to take risks in new line of opportunities	3.58	1.10
Efficiency of internal operations	4.08	0.86
Growth in market share	4.24	0.72
Capital buildup of the bank	4.42	0.72
Bank to employee relationship	3.64	1.32
Bank to customer relationship	4.42	0.72
Enhancement of service delivery	4.04	1.08
Pricing strategy	4.00	0.87
Creation of known brand	3.84	1.11
Overall mean	4.02	
Overall standard deviation		1.01

Source: Survey result, 2016

### **Strategies applied by banks to improve performance**

The respondents were also requested the specific strategies applied by their bank to improve overall banks performance. Most of the respondents indicated that their bank were working aggressively on branch network expansion, focus on core business activities, revise target market segments, and focus on a

particular customers. Table 4.12 shows the specific strategy applied by the banks

**Table 4.12 Strategies applied by banks**

Strategy	Mean	Standard Deviation
Branch expansion	4.76	0.60
Change in target market segment	4.36	0.81
Focus on core business activities	4.64	0.49
Focus on particular customers	4.20	0.76
Focus in particular geographic areas	3.48	1.33
Focus in particular service lines	3.67	1.27
Overall Mean	4.19	
Overall Standard Deviation		1.03

Source: Survey result, 2016

### **Challenges faced while implementing competitive strategies**

The respondents were also requested the kind of challenge they had faced while implementing competitive strategies. Most of the respondents indicated that the growing needs of their customer were their main challenge. Imitations of bank services or products by competitors, unethical move of other competitors and loss of skilled employees to competitors were also indicated by the respondents were also another challenge. Table 4.13 shows the challenges faced while implementing competitive strategies.

**Table 4.13 Challenges faced while implementing competitive strategies**

Challenges	Mean	Standard Deviation
Loss of skilled employees to competitors	3.96	1.22
Rise in cost of doing business	3.74	1.14
Competition on price wars	3.83	0.96
Growing need of customer	4.39	0.72
Unethical move of other competitors	4.00	1.28
The bank has a heavy investment in old outdated technology	3.42	1.32
The bank charges a price too high as compared to the market	2.92	1.53
The bank has over centralized its operation	3.74	1.45
The banks service are easily imitated by other banks	4.04	0.93
Problem of accessibility to potential customers	3.55	1.10
Potential customers have limited information regarding the bank's services	3.50	1.18
overall mean	3.73	
overall standard deviation		1.22

Source: Survey result, 2016

#### 4.4 Performance of Dashen Bank and Awash International Bank.

In order to assess the effectiveness of the generic strategies on the performance of the banks under study the following listed performance indicators over the most recent three year period have been considered and comparison was made against the Ethiopian private banks industry average. The research believes that taking the industry average as benchmark can serve as a useful mechanism to objectively evaluate the performance of the private banks under study.

##### **Total Asset as compared to the industry average**

The total asset of a firm represents the combined value of all assets owned by a given company that can provide future economic benefits and whose value can be measured reliably and objectively. The total asset position of a firm usually measures the company's total size. Accordingly, three years consecutive total asset position of Ethiopian private banks was collected from the year 2013 up to 2015 and comparison was made with the total asset position of the banks under study Awash International bank and Dashen Bank. Table 4.14 below shows the total asset position of Ethiopian private banks and share of AIB and DB.

Table 4.14 Share of total asset by AIB & DB

Years	2013	2014	2015	Industry Average
Total asset of private banks (In millions) ( in Birr)	100,504	123,115	155,192	126,270
AIB (A)	16,079	20,028	23,896	
DB (B)	19,747	21,962	24,764	
Sum (A+B)	35,826	41,990	48,660	AVG/bank = 7,892
% Share of AIB and DB	35.65%	34.11%	31.35%	

Source: Extracted from annual reports of private banks

As we observe in the table 4.14 above the industry average in terms of total asset for the last three years was around Birr 7.8 billion whereas the two banks total asset was more than Birr 22 billion each on average and the two banks holds 1/3 of the total Ethiopian private banks. This condition was in agreement with Leitner & Guldenberg (2010), who report higher total asset growth rates for small- to medium-sized firms pursuing a hybrid strategy. So we can safely say that the generic strategy adopted by these two banks had contributed for the growth in their total asset.

### **Net income growth as compared to the industry average**

The firm's net income is usually used as a performance measurement tool. Such measurement technique usually reflects the fulfillment of the economic objective of the firm and measures the financial performance of the firm on a specific period of time usually a year. Data pertaining to net income of Awash international bank and Dashen Bank were collected and comparison was made against the Ethiopian private banks industry average. Table 4.15 below compares the share of net income of the two banks against the private banks total net income for the last three consecutive years.

Table 4.15 Share of Net income by AIB & DB

Years	2013	2014	2015	Industry Average
Total net income (In millions) (Birr)	3,832	4,717	5,356	4,635
AIB (A)	583	829	861	AVG/bank = 289
DB (B)	813	958	964	
Sum (A+B)	1,396	1,787	1,825	
% Share of AIB & DB	36.43%	37.88%	34.07%	

Source: Extracted from annual reports of private banks

The findings in the above table show that the industry average for net income were about Birr 289 million whereas the two private banks Awash International Bank and Dashen Bank average net income for the period was Birr 757 million and Birr 911 million respectively. The two banks registered more than 1/3 of the total net income for the period under consideration. This shows that the two banks alone dominated the private banking sector as observed by their profit share of more than 34% of the total industry average. The generic strategy adopted by the banks under study has a contribution for the profit performance of the two banks

### **Paid up capital as compared to the industry average**

The company's paid up capital refers to resources with a financial value that is contributed in the form of capital at establishment and subsequent periods. It usually measures the firm strength and its capacity to withstand any unforeseen events. The sixteen Ethiopian private banks paid up capital were extracted from their financial statement and comparison was made with the banks under study. Table 4.16 below compares the share of paid up capital of the two banks against the private banks total paid up capital for the last three years.

Table 4.16 Share of paid up capital by AIB & DB

Years	2013	2014	2015	Industry Average
Total paid up capital (in millions) (Birr)	8,253	10,812	13,012	10,692
AIB (A)	1,170	1,394	1,777	AVG/Bank = 668
DB (B)	737	1,064	1,239	
Sum (A+B)	1,907	2,458	3,016	
% Share of AIB & DB	23.11%	22.73%	23.18%	

Source: Extracted from annual reports of private banks

The findings in the above table show that the industry average for paid up capital for the last three years were Birr 668 million whereas the average paid up capital for AIB and DB for the same period were Birr 1.4 billion and 1.01 billion respectively. The two banks holds more than 23% of the total paid up capital which was greater than the industry average by more than 10%.

### **Earnings per share as compared to the industry average**

Earnings per share (EPS) measures earnings available to stock holders or owners of the company. EPS usually tells the current financial performance of the firm for each unit of shares invested. Data pertaining to EPS of Awash international bank and Dashen Bank were collected and comparison was made against the Ethiopian private banks industry average. Table 4.17 below compares the EPS of the two banks average against the private banks average EPS for the last three years.

Table 4.17 EPS as compared to industry average

Years	2013	2014	2015	Industry Average
EPS (Industry average) – before tax (Birr)	464	436	412	437
AIB (A)	498	595	485	
DB (B)	1,103	900	778	
Sum (A+B)	732	727	605	
% Share above industry average	57.66%	66.64%	47.01%	

Source: Extracted from annual reports of private banks

The findings in the above table show that the Ethiopian banking private sector industry average for EPS before tax was Birr 437 for the last three years whereas the average EPS before tax for AIB and DB for the same period were Birr 688. The two banks average EPS before tax for the period under consideration was 57% higher than the industry average. This shows that the two banks performance exceeds the average private industry performance. This shows the generic strategy adopted by the two banks have a positive effect on performance.

## Chapter five – Summaries, Discussion of Findings, Conclusions and Recommendations

### 5. 1 Summary and Discussion of Findings

The study was conducted to assess the effectiveness of generic strategies in the overall performance of Ethiopian private banks – the case of Awash International Bank and Dashen Bank. To stay alive in the current competitive and challenging environment, the need to assess efficiency is an important aspect for these banks to sustain a competitive advantage. This is important to depositors, shareholders, potential investors, managers and regulators. If financial institutions become more competitive in an effective manner, we might expect improved profitability, better prices, better service quality for consumers, greater safety and soundness, better returns to shareholders and improvement of the overall country's economy.

The study came up with the following findings based on the four research question which were forwarded at the beginning of the study.

1. The first research question was to identify the competitive strategies adopted by private commercial banks in Ethiopia in response to the competitive environment. According to the findings, all of the respondents were agreed on the existence of challenges due to competition in the Ethiopian banking sector specifically on the private banking sector. The findings also indicated that these banks have put in place generic strategies to withstand and survive the competition. The majority of the respondents indicated that their bank applied a mixed strategy. This is an indication that the banks under study uses mixed strategy mostly in response to competition followed by differentiation strategy.

The findings of the study on the application of differentiation strategies in response to competition revealed that majority of the respondents were in applied quality service, technological leadership, strong brand creation, unique banking service, reputation, new product or service development, use of innovative marketing techniques, use of multichannel or modern technology and unique skill in the industry.

The findings on cost leadership strategies indicated that organizational restructuring, tight cost control, and process reengineering are easily help the banks to reduce unproductive costs and create economics of scale which helps the bank to achieve competitive cost advantage.

The findings on focus strategy also indicated that most of the respondents are in agreement on the application of high level market segmentation to narrow group of customers, targeting high priced and low prices market segments to meet niche market needs with a more focused strategy to withstand the competition.

2. The second research question of this study aimed to assess the effectiveness of competitive strategies adopted by private commercial banks in Ethiopia. The industry average of asset size was Birr 7.8 billion for the period 2013 to 2015, while the two banks under study registered an asset size of Birr 22 billion for the same period. The industry average of net income for the period 2013 to 2015 was Birr 289 million whereas the average net income of AIB and DB for the same period were Birr 757 million and Birr 911 million respectively. The two banks EPS for the period covering from 2013 to 2015 was 57% more than the Ethiopian private banks average EPS for the same period.

According to the research findings the two banks alone account for one third of the private banks market share in terms of total asset, net income

and paid up capital. These indicate that the competitive strategies employed by these two banks are helped them to capture a significant portion of the market share relative to other industry players.

3. The third research question of this study was to determine the challenges Ethiopian private commercial banks face in implementing the competitive strategies. According to the research the significant challenge determined while implementing competitive strategies were growing needs of customers, imitation of banking services, unethical move and loss of skilled employees to competitors. Growing needs of customers with a mean value of 4.39 or 87.8% followed by imitation of the banks service by competitor with a mean value of 4.04 or 80.8%, and unethical move of competitors with a value of 80% were believed to be a significant challenge affecting implementation of competitive strategies by the banks under study.
4. The final research question of this study was to establish the relationship between the competitive strategies and performance of Ethiopian private commercial banks. The findings show a significant relationship between the strategies adopted by Awash International Bank and Dashen Bank vis a vis the organization's performances with respect to the following performance indicators: total asset growth as compared to the industry growth, net income growth as compared to the industry growth, earnings per share as compared to the industry earnings per share.

## 5.2 Conclusion

The effect of competitive strategies on the performance of private banks in Ethiopia has not been done previously. This study attempted to assess the effectiveness of competitive strategies adopted by Ethiopian private banks based on the experience of Dashen Bank and Awash International Bank.

The study first tried to identify whether there existed challenges in the banking sector that affect the operation of the banks under study, the factors that are believed to affect competition and the generic strategy adopted to mitigate the identified challenges. The findings showed a significant relationship between the strategies adopted by the banks under caption vis –a-vis the organization’s performance with respect to the following performance indicators: total asset growth as compared to the industry growth, net income growth as compared to the industry growth, earnings per share as compared to the industry earnings per share. The findings also suggest that there is a positive association between their competitive strategies and performance. The results suggest that pursuing mixed generic strategy leads to better performance for private banks in Ethiopia.

### 5.3 Recommendation

Based on the findings of the study, the following recommendations were forwarded for adoption for players in the sector.

The two private banks under study were applying a mixed generic strategy and their performances were also at the top as compared to the other players in the industry. These banks should maintain and further improve the existing strategy for future in order to stay on top.

These banks should also assess the implementation status of their strategy and identify whether the performance were due to their strategy or other factors since performance was also affected by other factors like employee engagement, the growth of the general economy and factors outside the banking industry.

This research has tried to show existence of relation between the generic strategies adopted by Ethiopian private commercial banks with their performance. Since the country’s banking industry especially the private

sector one is under infant stage, it faced with challenges that emanate from strong regulation, under developed infrastructures, cut throat competition and high environmental dynamics. This situation undoubtedly forced the banks to implement generic strategies to mitigate the challenges. The findings that the banks under study that pursuing mixed generic strategy perform better as compared to the industry demands further empirical research that can possibly associate the degree of relation between the particular generic strategy against performance.

### **Suggestions for further Research**

The research has targeted only two private banks out of the total nineteen banks operated in Ethiopia. Future research should utilize larger sample size. A comparative analysis research among banks in Ethiopia on their generic strategy could indicate the effectiveness of a particular strategy over others in achieving better performance. What is more having a generic strategy is one thing implementing it another. Future research that focuses on the relationship of effective implementation of generic strategies with firm performance is necessary.

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## Annex I: Questionnaire

### Research Questionnaire

-----Bank S.Co,

**Dear respondent,**

Good day to you!

My name is Tilahun Kifle, a post-graduate student pursuing an Executive Master Degree in Business Administration in the College of Business and Economics and Department of Management at the Addis Ababa University. Currently, I am conducting a thesis for the partial fulfillment of a master's degree to assess the effectiveness of competitive strategies adopted by private banks in Ethiopia - .

To achieve this objective, your genuine and timely response of the questionnaire designed for the purpose will have a tremendous impact. It is assumed that the questionnaire will take only a few of your time to complete.

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

If you would like further clarification and information about the study, or have any problem in completing the questionnaire please contact me via **0911-440410**.

**Best regards.**

**I. Respondents profile** (please put “✓” in the box provided)

a) Please indicate your gender:  Male  Female

b) Please indicate your educational background

>=Masters  1<sup>st</sup> degree  Diploma  High school  others

c) Position held in the bank

Executive level manager

Middle class manager

Line manager

Professionals

Others (please specify) \_\_\_\_\_.

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

Below five years

5 - 10 years

11 - 15 years

> 15 years

**II. Banking Sector Specific**

1. Is your bank currently facing any challenges due to competition?

Yes  No

2. In your opinion, which of the listed challenges currently affects your bank?

Multiple answer is possible

High expectation from customers

Government regulations

High cost of doing business

High level of competition

Under developed infrastructures

(Others) please specify

3. To what extent do these challenges affect your banks operation? Put a tick (✓) mark under your choice using 1(Great extent), 2(Slight extent), 3(Fair), 4( A little) and 5(Not at all)

Challenges	Great extent 1	Slight extent 2	Fairly 3	A little 4	Not at all 5
High expectation from customers					
Government regulations					
High cost of doing business					
Marketing					
High level of competition					
Under developed infrastructures					
(Others)please specify					

4. **In your opinion**, how intense is the severity of the competitive forces to the banking industry operation? (Ranking order same as in Q3 above)

	Very intense 5	Slightly intense 4	Not intense 3	Slightly low 2	Very low 1
Barriers to entry					
Rivalry in industry					
Threat of substitute					
Power of buyers					
Power of suppliers					

5. **In your opinion**, is your bank put in place a strategy to mitigate the challenges?

Yes  No

6. If your answer to Question no 5 is yes, do you agree that these are some of the generic strategies put by your bank to withstand the competition? (Multiple answers are possible)

Strategies put in place	Put tick mark (✓)
Differentiation (Perceived as unique in the banking sector)	
Cost leadership (Charges low price relative to the banking sector)	
Focus strategy (serve narrow strategic target using differentiation or cost leadership)	
Mixed strategy (Use of the strategies in various combination)	

7. Does your bank apply the following specific strategies on differentiation?

NB. Put a tick (✓) mark to indicate your answer. Use the scale of 1(strongly agree),2(Slightly agree), 3(agree), 4(disagree) and 5(strongly disagree)

Variables of differentiation	Strongly agree 1	Slightly Agree 2	Agree 3	Disagree 4	Strongly disagree 5
Use of innovative marketing techniques					
New products/service development					
Reputation for quality service or technological leadership					
Strong brand creation					
Attract highly skilled and creative employees					
Strong capability in basic research					
Use of multichannel or modern technology to reach to customers					
Long tradition in the industry or unique combination of skills					

8. Does your bank apply the specific strategies on cost leadership?

Variables on Cost leadership	Strongly agree 1	Slightly Agree 2	Agree 3	Disagree 4	Strongly disagree 5
Pricing below the competitors					
Tight cost control					
Use of low cost channel to reach to customers					
Structured organization and responsibilities					
Strong process engineering skills					
Intense supervision of employees					
Keeping lower overheads than the competitors					

9. Does your bank apply these specific strategies on focus strategies?  
(Ranking order same as in Q7 above)

Application of focus strategy

Variables on Focus strategy	Strongly agree 1	Slightly Agree 2	Agree 3	Disagree 4	Strongly disagree 5
Narrow limited range of services/products					
Serving specific geographic markets					
Products offered in lower priced market segments					
Products offered in high priced market segments					
Serving a specific class of customers					

High level of segmentation to narrow group of customers					
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10. Responding strategically to the competitive environment is very vital and will enhance performance in the banks. Do you agree?  
(Ranking order same as in Q7 above)

Improved performance based on the strategies applied	Strongly agree 1	Slightly Agree 2	Agree 3	Disagree 4	Strongly disagree 5
Performance based on differentiation					
Performance based on cost strategy					
performance based on focus strategy					
Performance based on mixed strategy					

11. To what extent does your bank take the initiatives to change elements of competitive strategies for performance improvement?  
(Ranking order same as in Q3 above)

	Great extent 1	Slight extent 2	Fairly 3	A little 4	Not at all 5
Employee capacity and skill development					
Bank reputation					
Innovative idea generation capacity					
Ability to take risks in new line of opportunities					
Efficiency of internal operations					
Growth in market share					
Capital buildup of the bank					
Bank to employee relationship					
Bank to customer relationship					

Enhancement of service delivery					
Pricing strategy					
Creation of known brand					

12. Which Strategies applied by your bank to improve the current performance

(Ranking order same as in Q7 above)

Strategy	Great extent 1	Slight extent 2	Fairly 3	A little 4	Not at all 5
Branch expansion					
Change in target market segment					
Focus on core business activities					
Focus on particular customers					
Focus in particular geographic areas					
Focus in particular service lines					

13. Which of the challenges listed below faced by your bank while implementing competitive strategies?

Challenge	Great extent	Slight extent	Fairly	A little	Not at all
Loss of skilled employees to competitors					
Rise in cost of doing business					
Competition on price wars					
Growing need of customer					
Unethical move of other competitors					
The bank has a heavy investment in old outdated technology					
The bank charges a price too high as compared to the market					
The bank has over centralized its operation					
The banks service are easily replaced by other banks					
Problem of accessibility to potential customers					
Potential customers have limited information regarding the bank's services					



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