Review Article
Volume 14:1, 2025

International Journal of Economics & Management Sciences

ISSN: 2162-6359 Open Access

Competitive Advantage Effect on Organizational Performance of Commercial Bank of Ethiopia

Dawit Jabo[1*], Berhanu Borji[2] and Shashi Kant[3]

[1]*Department of Marketing, Bule Hora University, Hagere Mariam, Ethiopia*

[2]*Department of Management, Hawassa University, Hawassa, Ethiopia*

[3]*Department of Management, Bule Hora University, Hagere Mariam, Ethiopia*

Abstract

This study investigated the role of competitive advantage consequences on bank performance. Few studies have looked at how competitive advantage affects company performance in emerging economies, notably in sub-Saharan Africa. This essay made an effort to do research to close that gap from an Ethiopian viewpoint. An answer gathered using a survey questionnaire from the sampled 383 CBE consumers in the Southern Ethiopian region of Dilla. Using the Statistical Evaluation Method (SEM) approach using SPSS and AMOS edition 26, the gathered data were examined for the association among the two hypothesized variables. The outcomes demonstrated that, *via* the negotiation process of competitive advantage has a favorable, considerable impact on performance of business. According to the findings of this study, commercial banks should employ competitive advantage as a means of gaining a competitive edge. Additionally, it was suggested that future studies examine the consequences of competitive advantage on competing companies.

Keywords: Performance of business • Competitive advantage • Commercial bank

Introduction

Competitive advantage is a detailed plan outlining how businesses will compete in an increasingly competitive environment. The advertisement highlights the fierce competition in the banking sector, which extends far beyond the actions of modern rivals. Competitive advantage is defined as a business that grows in a different way from its rivals [1-3]. Wahyuni et al. and Mulyono and Suprapto also contend that competitive advantage is a strategy that aid in the business's survival [4,5]. Kibebe M'mbwanga and Anyieni also notes that in a competitive market, a firm's capacity to generate performance is highly dependent on the level of competitive advantage [6]. Competitive advantage is the business's approach to achieving the ultimate goal, which is to increase performance.

In a world view, competitive and dynamic environment, commercial banks are significant strategic factors for increasing competitiveness. The performance of commercial banks are related to customer service, cost lower, and tied up product quality. Customers increasingly expect short customer service in commercial banks industry, since there was a quality of product [7]. Commercial banks play a key role in the economy, and the market share volume of commercial bank has already reached a substantial level in economies as a result. Industries that are successful worldwide have long recognized the critical role commercial banks play in creating benefit [8]. The demand for services could only be satisfied through the proper that are successful worldwide and cost-effective product quality and customer service [9]. According to Okwemba, Njue et al., Peirchyi Lii and Fang-I, and Chepchirchir et al. long-term strategy should derive industry's attempt to seek and sustain competitive advantage, based on cost leadership strategy, differentiation strategy, and focus strategies [10-13]. This paper therefore looks at how competitive advantage has influenced performance of commercial banks operating at Dilla district.

Problem statement

Effective competitive advantage is a critical tool for enhancing business performance because of the fierce competition in the banking sector, where there is a constant race to capture a large share of market and attract as many customers as possible. This is especially true given the weakly competitive offering made by the banks [14,15].

***Address for Correspondence:** Dawit Jabo, Department of Marketing, Bule Hora University, Hagere Mariam, Ethiopia, Tel: 985414790; E-mail: Dawitjabo2021@gmail.com*

Received: 22 November, 2023, Manuscript No. IJEMS-23-120718; **Editor assigned:** 24 November, 2023, PreQC No. IJEMS-23-120718 (PQ); **Reviewed:** 08 December, 2023, QC No. IJEMS-23-120718; **Revised:** 03 January, 2025, Manuscript No. IJEMS-23-120718 (R); **Published:** 13 January, 2025, DOI: 10.37421/2162-6359.2025.14.768

Also, the relationship between competitive advantage and business performance has been the subject of conflicting or ambiguous conclusions from contemporary empirical research conducted by numerous academics in various countries (Jordanian, Nepal) [16]. These studies found a substantial relationship, but Noermijati suggests an insignificant relationship. Therefore, the current researcher is going to fill the gaps of previous scholars mentioning and to cover literature and geographical gaps and determine effect of competitive advantage on business performance in the selected bank branches in Dilla district.

Theoretical framework

According to the resource-based perspective of the firm, a firm's ability to obtain idiosyncratic resources, particularly those related to tacit knowledge, gives it a competitive advantage. When considering alliance formation from a resource-based standpoint, companies have typically focused more on the competences that already exist (or lack thereof) that could encourage them to establish new alliances than on the factors that influence the opportunities that companies may see. This internal, static perspective encapsulates the external context inside measures of competitiveness in product or supplier markets by implicitly viewing enterprises as atomistic agents participating in strategic behaviors within a social setting [17-20]. Broadly speaking, power-based arguments from intra-organizational relations were generalized to relations between organizations as early as scholars; research on the bases of power within organizations dates back to Weber and includes much of the early work of social exchange theorists and political scientists. Resource based view theory characterizes the links among organizations as a set of power relations based on exchange resources.

Literature Review

Cost leadership's role in creating a competitive advantage in the face of business competition and its ability to boost business performance in Indonesia is examined by Noermijati. Cost leadership strategy is one of the dimensions of competitive advantage. They used Smart PLS 2.0 software in conjunction with the survey and PLS-SEM methods. Their findings indicate that the cost leadership strategy has a marginally beneficial impact on corporate performance. Their findings show that the cost leadership strategy has no effect on improving business performance and cannot produce a competitive advantage.

Examining the impact of a cost leadership strategy in a new context-the milk processing industry in Kenya. Kimiti et al. concluded that cost-cutting measures taken by Kenyan milk processors include expanding into related business areas, improving operational processes, and scaling up their operations. The authors argued that a cost leadership strategy had a positive and significant effect on the business's performance.

Waithaka investigates how rival threats affect Kenyan commercial banks' ability to maintain a competitive edge in their business operations. Both descriptive and explanatory research designs were used in this study. The author made the case that threats from competitors significantly affect commercial banks' ability to maintain a competitive advantage in their business operations. The study's conclusion makes clear that risks from rivals are real and have the potential to hinder a bank's ability to gain market share. As a result, banks should identify these threats early on in order to devise strategies to either eliminate or lessen their influence.

Wahyuni et al. used a purposive sampling method and partial least squares to test the hypothesis in order to investigate the role of competitive advantage on business performance. Their findings indicated that the competitive advantage has a positive but negligible impact on business performance in Indonesia's industrial sector.

According to Kerdpitak et al. the investigation looked at the impact that competitive advantage played in rice's company performance and its innovative service and product. In order to collect data, the questionnaire was given to the responder customers, and 230 responses were used. Their conclusion shows that the most important factor in corporate performance is innovation in both services and products. According to their conclusion, a competitive advantage can improve business success by mitigating the notable impact of service and product innovation on business performance.

Kibebe M'mbwanga and Anyieni conducted research with an emphasis on Nakuru County, Kenya, to determine how strategic adoption affects competitive advantage among commercial banks. They employed a structured questionnaire design to obtain primary data from the management and employees of commercial banks. There was use of both inferential and descriptive statistical studies. The findings of their study demonstrated that, in contrast to customer focus methods, business knowledge management and technology are strongly correlated with the competitiveness of commercial banks in Nakuru County, Kenya.

Using the Kampala Central Commercial District, Maurice et al. conducted an investigation of the impact of competing tactics on the commercial performance of life insurance in Uganda. Their study used simple random and purposive sampling procedures together with a mixed research strategy and a cross-sectional survey design. According to their findings, the most important factor for competitiveness is differentiation strategy, as it is found to be more significant than the other three strategies. A unit increase in differentiation strategy, cost leadership strategy, and distribution channel strategy would result in a consecutive increase in life insurance uptake of 0.27582, 0.053, and 0.143. According to their findings, distribution channels, cost leadership strategies, and differentiation strategies all significantly boost the uptake of life insurance.

The study conducted by Niyi et al. aimed to investigate the intervening role of competitive advantage on business performance in the Nigerian banking industry. Using a cross-sectional survey, the researchers found that competitive advantage has a significant direct effect on business performance. Ultimately, the researchers concluded that business managers need to look for ways to develop business models that will help them identify and provide value to customers in a unique way and at a lower cost in order to improve business performance in comparison to their competitors.

The reviewed research focused on effect of competitive advantage on business performance of service industry while the current study focus on effect of competitive advantage on business performance of banking industries.

Hypothesis: Competitive advantage has a significant effect on organizational performance.

Materials and Methods

The target population for the study consisted of 210,039 customers at six (6) selected bank branches, Dilla district. A sample size of 381 was chosen using a multi-sampling technique. A questionnaire was used as the instrument of data collection. Descriptive and inferential statistics were used for data analysis. The study employed asequential exploratory research design, which is a method used to describe the cause-effect relationship.

Data analysis

The authors tested the null hypothesis that the correlation matrix is an identity matrix using Bartlett's test of sphericity. The variables utilised are unrelated and not the best for factor analysis, according to an identity correlation matrix. Although the overall approval index is greater than 0.6, the KMO ranges from 0 to 1. The KMO score of 0.730 in Table 1. It is considered excellent because it is higher than the suggested value of 0.6. Furthermore, for the factor analysis to be considered valid, the Bartlett's Test of Sphericity significant value has to be less than 0.05.

Kaiser-Meyer-Olkin measure of sampling adequacy		0.73
Bartlett's test of sphericity	Approx. *Chi-square*	823.82
	df	6
	Sig.	0

Table 1. KMO and Bartlett's data adequacy test.

Results and Discussion

Confirmatory factor analysis

A statistical method called Confirmatory Factor Analysis (CFA) was used to confirm the factor structure of a collection of observed data. The hypothesis that there is a relationship between the observable variables and their underlying latent constructs can be tested by the researcher using CFA. The primary benefit of CFA is its capacity to help researchers close the frequently noted gap between theory and observation. For each of numerous distinct theoretical constructs, for instance, several pieces might be created in order to develop an instrument (Figure 1).

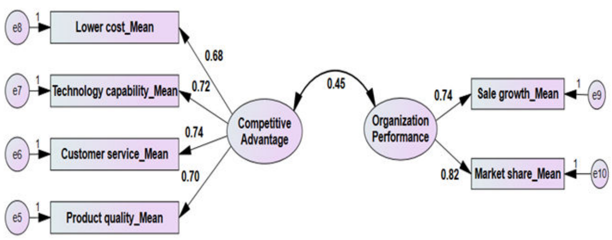

Figure 1. Confirmatory factor analysis.

In order to check the predictions of the fundamental or established theory, Confirmatory Factor Analysis (CFA) was used to identify the factors and factor loading of the measured variables. According to CFA, every factor is thought to be connected to a certain subset of the measured variables (Table 2).

			Estimate	S.E.	C.R.	P	Hypothesis
Competitive advantage	<-->	Organization performance	0.12	0.015	8.147	***	Accepted

Table 2. Covariance.

The covariance between competitive advantage and organization performance is estimated to be 0.120. The covariance estimate, 0.120, has a standard error of about 0.015. Dividing the covariance estimate by the estimate of its standard error gives z=.120/.015= 8.147. In other words, the covariance estimate is 8.147 standard errors above zero. The probability of getting a critical ratio as large as 8.147 in absolute value is less than 0.001. In other words, the covariance between competitive advantage and organization performance is significantly different from zero at the 0.001 level (two-tailed). These statements are approximately correct for large samples under suitable assumptions. 0.452 is the estimated correlation between competitive advantage and organization performance (Figure 2 and Table 3).

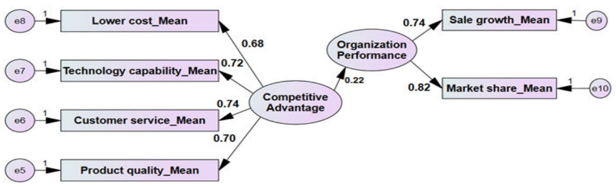

Figure 1. Model fitness indices.

CMIN	CMIN/DF	GFI	NFI	AGFI	RMSEA
89.334	2.862	0.941	0.919	0.846	0.145

Table 3. Model fitness indices.

The default model has a discrepancy of 89.334. For the default model, the discrepancy divided by degrees of freedom is 2.862. The GFI (Goodness of Fit Index) is 0.941 for the default model. GFI is less than or equal to 1. A value of 1 indicates a perfect fit. The Bentler-Bonett Normed Fit Index (NFI), founded as 0.919 for the default model.

"Since the scale of the fit indices is not necessarily easy to interpret (e.g., the indices are not squared multiple correlations), experience will be required to establish values of the indices that are associated with various degrees of meaningfulness of results. In our experience, models with overall fit indices of less than 0.9 can usually be improved substantially. These indices, and the general hierarchical comparisons described previously, are best understood by examples."

The AGFI (Adjusted Goodness of Fit Index) takes into account the degrees of freedom available for testing the model founded 0.846 for the default model. The AGFI is bounded above by one, which indicates a perfect fit. It is not, however, bounded below by zero, as the GF. Gets a point estimate of the Root Mean Square Error of Approximation (RMSEA) was founded 0.145 for the default model (Table 4).

Organization performance<--- Competitive advantage	Estimate	S.E.	C.R.	P
	0.871	0.107	8.138	***

Table 4. Regression weights.

When competitive advantage goes up by 1, organization performance goes up by 0.871. The regression weight estimate, 0.871, has a standard error of about 0.107. Dividing the regression weight estimate by the estimate of its standard error gives z=.871/.107=8.138. In other words, the regression weight estimate is 8.138 standard errors above zero. The probability of getting a critical ratio as large as 8.138 in absolute value is less than 0.001. In other words, the regression weight for competitive advantage in the prediction of organization performance is significantly different from zero at the 0.001 level (two-tailed). These statements are approximately correct for large samples under suitable assumptions. The total (direct and indirect) effect of competitive advantage on organization performance is .871. That is, due to direct (unmediated) effect of competitive advantage on organization performance, when competitive advantage goes up by 1, organization performance goes up by 0.871.

Conclusion

Through organisational performance, competitive advantage also strengthens the link between competence and knowledge management. The performance of human resources can be improved by managers at all levels, which will enhance the competitive advantage of the company. Being able to outperform your rivals is crucial for company success because:

It can result in larger profit margins. It might facilitate drawing in more clients on a regular basis. It keeps consumers loyal to a brand. Information technology, service excellence, and leadership qualities are the primary determinants of competitive success in the banking sector. An industry's intrinsic dynamics are taken into account when an organisation selects a competitive strategy. The relationship between competency and bank performance is further strengthened by competitive advantage through organisational performance.

This finding has significance for managerial levels in terms of improving the performance of human resources in order to strengthen the competitive advantage of the company. Success in business depends on having a competitive advantage over rivals because: It can lead to larger profit margins. It might make attracting more clients more regular. It supports continued brand loyalty. According to Rogers, information technology, service quality, and leadership qualities are the primary determinants of competitive success in the banking sector. After taking into account the internal industry dynamics, an organisation selects a competitive strategy.

References

1. Wang, Cheng-Kun, Mohammad Masukujjaman, Syed Shah Alam, and Ismail Ahmad, et al. "The effects of service quality performance on customer satisfaction for non-banking financial institutions in an emerging economy." *Int J Financ Stud* 11 (2023): 33.
2. Ali, Bayad Jamal, and Govand Anwar. "Porter's Generic Competitive Strategies and its influence on the Competitive Advantage." *Int J Adv Eng Manag Sci* 7 (2021): 42-51.
3. Kurdi, Barween, and Muhammad Alshurideh. "Employee retention and organizational performance: Evidence from banking industry." *Manag Sci Lett* 10 (2020): 3981-3990.
4. Wahyuni, Hesti, Erlin Melani, and Triesti Candrawati. "Competitive advantage as a mediating variable to the relationship between intellectual capital and financial performance." In *1st annual management, business and economic conference* (AMBEC 2019), pp. 69-74. Atlantis Press, 2020.
5. Suprapto, A. T. "The impact of e-business on competitive advantage through innovation organization on financial company listed at Indonesia stock exchange." In *IOP Conference Series: Earth and Environmental Science* 729 (2021): 012135. IOP Publishing.
6. M'Mbwanga, Sonia Kibebe, and Abel Anyieni. "Strategies Adopted to Achieve Competitive Advantage of Commercial Banks in Nakuru County, Kenya." *Int J Sci Res Manag* 10 (2022): 3278–3293.
7. Panigrahi, Amrutanshu, Ajit Kumar Nayak, Rourab Paul, and Bibhuprasad Sahu, et al. "CTB-PKI: Clustering and trust enabled blockchain based PKI system for efficient communication in P2P network." *IEEE Access* 10 (2022): 124277-124290.
8. Azaj, Endeshaw, Mengistu Bogale Ayele, and Worku Mekonnen. "Effect of strategic orientations on organizational performance: evidence from top management of a private bank in Ethiopia." *Int J Leadership* 8 (2020).
9. Dutse, Abdullahi Hassan Goron, and Mukhtar Shehu Aliyu. "Cost leadership, market orientation and business performance: An empirical investigation." *J Quan Methods* 2 (2018): 28-42.
10. Okwemba, Emily Mokeira. Influence of Focus Strategy on Performance of Public Universities in Western Kenya Region. *Int J Bus Mnag Invent* 12 (2023): 1–7.
11. Njue, Leonard Mugendi, Susan Kambura, and Abel Moguche. "The Effect of Product Differentiation Strategy on The Performance of Commercial Banks in Kenya." *J Bus Strat Manag* 8 (2023): 39–53.
12. Christian, Ogala Sunday. "Competitive advantage and organisational performance in selected firms." *Int Res J Manag IT Soc Sci* 7 (2020): 1-12.
13. Chepchirchir, Alice B., Francis Omillo, and Jennifer Munyua. "Effect of cost leadership strategy on organizational performance of logistics firms at Jomo Kenyatta international airport, Kenya." *Eur J Manag Mark Stud* (2018).
14. Chen, Jing, Abu Bakkar Siddik, Guang-Wen Zheng, and Mohammad Masukujjaman, et al. "The effect of green banking practices on banks' environmental performance and green financing: An empirical study." *Energies* 15 (2022): 1292.
15. Chikako, Teshita Uke, and Gemedi Tesfaye Hamu. "Assessment of customers' relationship management practices on customer retention and loyalty of Oromia credit and saving share company: Bule Hora city branch." *Adv Oper Res* 2021 (2021): 5545836.
16. Al Khasabah, Mohammad Ali Ibrahim, Hayatul Safrah Salleh, and Nik Hazimah Nik Mat, et al. "The Relationship among Total Quality Management, Operational Performance and Competitive Advantage in the Jordanian Banking Sector." *WSEAS Transactions Bus Econ* 19 (2022): 599-613.
17. Ivascu, Larisa, Waqas Ali, Rimsha Khalid, and Mohsin Raza. "The impact of competitive strategies on performance of banking sector; the mediating role of corporate social responsibility and operational excellence." *Energies* 16 (2022): 297.
18. Demir, Aspen Liden, Halim Kesik Mainardes, and Emre Bugra Hambrick. "Strategic Management and Performance of Commercial Banks in Turkey." *J Strat Manag* 6 (2022): 1–10.
19. Ghezali, Fatima, and Abdessamad Boudi. "Marketing capabilities and entrepreneurship: the moderating role of information technology capabilities in selected banks in Algeria." *les cahiers du cread* 37 (2021): 131-153.
20. Garcia-Fernandez, Jeronimo, Pablo Galvez-Ruiz, M. Rocio Bohorquez, and Moises Grimaldi-Puyana, et al. "The relationship between technological capabilities and organizational impact: direct and indirect routes for employed and self-employed personal fitness trainers." *Sustainability* 12 (2020): 10383.

How to cite this article: Jabo, Dawit, Berhanu Borji and Shashi Kant. "Competitive Advantage Effect on Organizational Performance of Commercial Bank of Ethiopia." *Int J Econ Manag Sci* 14 (2025): 768.