

**AN ASSESSMENT OF THE EFFECTIVENESS OF COMPETITIVE STRATEGIES OF PRIVATE COMMERCIAL BANK: IN THE CASE OF ZEMEN BANK**

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### Chapter one

### Introduction

### Background of the study

The scope of the business of banking is not merely an interesting theoretical issue. As all aware the financial services industry is continuing to evolve rapidly. If banks do not keep up, they will become obsolete (Juliel.willams &Mark P.Jacobsen, 1995).

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 turn into money, and upon the capital so collected, to build up by proper management and machinery the credit that will extend and enlarge the usefulness to the community of its actual money capital. Banks are constitute to make capital circulate, not to lock it up. 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 (Huck, 1966).

The managing an account industry, expanded competition undermines the allure of the industry and decreases the profitability of the players within the segment. It applies weight on banks to be proactive and to define fruitful methodologies that facilitate proactive reaction to expected and genuine changes within the competitive environment (Johnson & Whittington, 2008).

Banks in this manner center on gaining competitive advantage to empower them react to, and compete successfully within the advertise. By distinguishing their core competences, banks are able to concentrate on regions that allow them a lead over competitors, and give a competitive advantage (Pearce & Robinson, 2000). Core competences are more strong and troublesome to mimic since they relate to the administration of linkages inside the organizations esteem chain and to linkages into the supply and dissemination chains (Pearce & Robinson, 2000).

A competitive strategy is a broad-based formula describes the direction on how a business is to compete, what its goals should be, and what plans and policies will be required to achieve those goals. Through competitive strategy, an organization seeks a competitive advantage in the industry in terms of cost, quality, or speed measures. So, competitive strategy would not only design for reactive measures to the environment but also attempts to take proactive or shape the environment in its favor. Therefore, strategist must seek to position his or her firm to take competitive advantage within the industry though developing necessary strategies (Porter, 1985)

Competitive methodologies as a two dimensional marvel with a supply side key scope and a demand side vital quality. He afterward streamlined the plot into three bland procedure, to be specific ‘cost leadership, differentiation and focus. On the other hand, see competitive techniques from a commerce level point of view and accept that it is the accomplishment of competitive advantage by a trade unit in its specific showcase. They advocate for a crossbreed procedure, which gives a market-facing component to porter’s show within the frame of cost as a modern measurement and its combination with separation. On the other hand competitive techniques as more skill based and including vital considering, development, execution, basic considering, situating and the craftsmanship of fighting (Doorman, 1980).

Administration is fundamentally around the proceeding advancement of the organization and its workers. The requests and needs of the environment are always advancing and administration is approximately altering the company agreeing to the wants and requests of the environment. One of the natural impacts to a trade ordinarily emerges from competition (Pearce & Robinson, 2000). Combined procedure of an organization includes coordinating its corporate goals and its accessible assets. In this improvement of methodology, directors are concerned with accommodating the commerce the organization is in with the allotment of assets (Porter, 1980).

These banks have fueled a forceful department extension drive to extend department arrange of keeping money industry. This makes the competition stiffer and debilitates the engaging quality of the division, which eventually decreases the profitability of the players within the industry. It applies weight on banks to be proactive and to define fruitful procedures that facilitate proactive reaction to expected and genuine changes within the competitive environment (Johnson & Whittington, 2008).

In Ethiopian context, one cannot confidently argue that there has been rigorous banking competition. During the pre-1975 imperial era, there had few banks (dominated by foreign ownership) and the absorptive capacity of the economy was too low even to accommodate moderate competition. In the Derge regime (1975-1991), private banks were fully nationalize and left no room for competition. After the downfall of the Derge regime in 1991, private banks were again allow to operate consistent with the ideology of market oriented economic policy. Accordingly, new private banks were established and their role and position in the industry have been flourishing from time to time.

Previously research has been conduct about the effectiveness competitive strategy in response to demand for banking service. The performance impact of generic strategies in banking service.

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 differentiation strategy (Powers and hahn, 2004).

Allen and Helms (2006) examined the performance impact of generic strategies based on a crosssectional 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.

(Gathoga, 2001) centered on competitive methodologies by commercial banks in Kenya. The think about uncovered that banks in Kenya utilize different implies in arrange to stay competitive, he moreover concluded that development into other ranges by opening modern branches has too, been utilized as a procedure.

(Kimotho, 2012) did a study on the impact of competitive strategies on the financial performance of CFC Stanbic Bank Limited. A case think about approach was utilized within the study. The results attributed the improvement in financial performance on the competitive strategies that the bank has been undertaking in the past years of its existence. Even though those researches does not give response for ‘how to sustain competitive advantage?’ This research come with the answer for this question and tries to find solution for the challenges faced by the bank.

### 1.2 BACKGROUNGD OF THE ORGANIZATION

Zemen is one of the new entrants who joined the market on October 2, 2008 as the country's economy grows and more financial institutions entered the Ethiopian banking sector. It was founded by 2,800 stockholders with Birr 87,237,082 in paid up capital. The Bank received its licence on June 17, 2008, with registration number LBB/010/2008 from the National Bank of Ethiopia. Zemen Bank was founded to demonstrate that the banking industry can be shaken out of its past traditional way of serving customers by focusing on superior customer service, better banking products, and bringing a new level of dynamism to the financial sector of Ethiopia. The bank entered into the banking sector with a distinctive mode of offering Technologically-driven banking service with mono branch currently the bank has 100 Banking centers in Ethiopia.

### 1.3 Statement of the Problem

The modern business environment has become turbulent and very competitive to the extent that very few organizations are able to sustain their competitiveness in the long run due to the unpredictability of the environment. In order to survive and remain profitable in the competitive

Environment, it is necessary for companies to be aggressive in their search and development of response strategies that provide competitive advantage as they step up defensive strategies to protect their competitive advantages held (D'aveni, 1994).

Strategic deployment of competitive strategies is a fundamental function for every organization. Any organization that fails to adopt competitive strategies will continuously experience heavy financial losses because of the constantly changing external environment, which brings about constraints to the firm. Guided by these facts, there is a need, to formulate a study on banking sector in Ethiopia, specifically to understand the effects of combined strategies in zemen bank.

Previously research’s on the effectiveness of competitive strategy in related with performance by (Kimotho, 2012), (Gathoga, 2001), (Allen and Helms, 2006),and (Powers and hahn, 2004).None of the studies has concentrated on assessment of the effectiveness of competitive strategies adopted by Commercial Bank in response to market share growth, and gaining sustainable competitive advantage. In addition, the other core point that isolates this research from the other is that it focuses on Zemen bank that comes with different unique strategy to the industry. The researcher will try to bridge this gap by carry out surveys that assess the effectiveness of the competitive strategies adopted by Zemen bank.

### 1.4Objectives of the Research

## 1.4.1 General Objective

The general objective of the study will be to assess the effectiveness of competitive strategies adopted by Zemen bank.

### 1.4.2 Specific Objectives

Specifically, this study addresses the following specific objectives:

* To identify the competitive strategies adopted by Zemen bank as a source of sustainable competitive advantage in response to the competitive environment,
* To determine the bottleneck zemen bank face in implementing the competitive strategies
* To establish the relationship between the competitive strategies and market share of zemen bank.
* To establish factors which have influenced the choice of the particular competitive strategies by zemen bank

### 1.5 Research question

* What are the competitive strategies put in place by Zemen bank as a source of sustainable competitive advantage in response to the competitive environment?
* How effective are the competitive strategies adopted by Zemen bank?
* What are the bottle necks faced by zemen bank in implementing the competitive strategies?
* How is the competitive strategies and market share related in the case of zemen bank?
* What factors have influenced the choice of particular competitive strategies by zemen bank S.c?

### 1.6 Scope of the Study

This study will focus on assessment of the effectiveness of competitive strategies adopted by Zemen bank. The bank under study has offices in and outside Addis Ababa; however the research data is collected only from Addis Ababa branches.

### 1.7 Limitations of the Study

The study will be limited by various factors such as: the five years data are obtained directly from annual reports; it may have potential bias from the data source and current banking industry factors.

### 1.8 Significance of the Study

The contribution of this study will include the following:

* It will help the bank management to see whether the competitive strategies put in place resulted in better performance,
* It will help other researchers as who want to make further study on the area afterwards as a source of reference,
* It will also give 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.

### CHAPTER TWO

### LITRATURE REVIEW

### 2.1 Theory of Competitive Strategy

Competitive technique is the explore for a favorable competitive position in an industry, the elemental field in which competition happens. The supportability of this positional advantage requires that the commerce sets up obstructions that make impersonation troublesome, since these obstructions to impersonation are ceaselessly disintegrating, the firm must proceed to contribute to maintain or progress the advantage. A firm’s choice of competitive methodology will be managed by its capacity to form and maintain competitive advantage. Competitive advantage is the condition, which empowers a company to function in a more proficient or something else higher quality way than the companies it competes with and which comes about in benefits collecting to that company (Doorman, 1980).

Technique is approximately two things: choosing where you need your commerce to go, and choosing how to urge there. A clear definition is based on competitive advantage, the question of most corporate technique: Competitive advantage develops out of value a firm is able to make for its buyers that surpasses the firm's taken a toll of making it. Esteem is what buyers are willing to pay, and prevalent esteem stems from advertising lower costs than competitors offer for comparable benefits do or giving interesting benefits that more than balanced a better cost. There are two fundamental sorts of competitive advantage: taken a toll authority and separation.

A firm's relative position inside an industry is given by its choice of competitive advantage (taken a toll administration vs. separation) and its choice of competitive scope. Competitive scope recognizes between firms focusing on wide industry portions and firms centering on a contract section. Non-specific procedures are valuable since they characterize vital positions at the only and broadest level. Competitive advantage requires a firm to create a choice approximately the sort and scope of its competitive advantage (Porter, 1980).

### 2.2 Concept of Strategy

A strategy is a game plan, a pattern in a stream of decisions and actions, a position and a ploy intended to outwit competitors while fulfilling stakeholders’ expectations in line with the organization’s scope of business. Clearly, the key aim of business strategy is to gain competitive advantage or combat superiority over competitors or foes as the case may be. Sums up that business strategy is all about ‘competitive advantage’ (Johnson & Whittington, 2008).The sole purpose of strategic planning is to enable a company gain, as efficiently as possible, a sustainable edge over its competitors (Lawrence, 2011).

Competitive strategy is therefore an attempt to alter a company’s strength relative to that of its competitors in the most efficient way and to would actions and decisions of managers and employees in a coordinated, companywide game plan. Many writers have always associated word “strategy” with and indeed very strongly in any discussion on the subject of management of an organization because of its importance. Explain that it is to ensure that an organization applies its strengths and distinctive competences in such a way that it gains a competitive advantage over its rivals in any given environment. Strategy as a game plan, a pattern in a stream of decisions and actions, a position and a ploy intended to outwit competitors while fulfilling stakeholders’ expectations in line with the organization’s scope of business. technique as the course and scope of an organization over the long-term which accomplishes advantage for the organization through its setup of assets inside a challenging environment, to meet desires of markets and to fulfill partner expectations (Johnson & Whittington, 2008).

### 2.3 Competitive advantage

Competition is at the center of the victory or disappointment of firms. Competition decides the fittingness of a firm's exercises that can contribute to its execution, such as developments, a cohesive culture, or great execution. Competitive methodology is the rummage around for a favorable competitive position in an industry, the basic field in which competition happens. Competitive methodology points to set up a beneficial and maintainable position against the strengths that decide industry competition. Two central questions underline the choice of competitive procedure. The primary is the allure of businesses for long-term productivity and the variables that decide it. Not all businesses offer rise to openings for supported benefit, and the inborn productivity of its industry is one basic fixing in deciding the productivity of a firm. The moment central address in competitive technique is the determinants of relative competitive position inside an industry. In most businesses, a few firms are much more beneficial than others do (Besanko,Drannove and Shanley, 2000).

In any case of what the normal productivity of the industry may be. Not one or the other address is adequate by itself to direct the choice of competitive procedure. A firm in a really alluring industry may still not win alluring benefits in the event that it has 'chosen a destitute competitive position. Alternately, a firm in an amazing competitive position may be in such a poor industry that it isn't exceptionally beneficial, and encourage endeavors to improve its position will be of small benefit. Both questions are energetic; industry engaging quality and competitive position alter. Businesses gotten to be more or less appealing over time and competitive position reflects an unending fight among competitors. Indeed long periods of steadiness can be unexpectedly finished by competitive moves (Watchman, 1985).

The nature of competition in one industry depends on the fundamental competitive components which comprise of the taking after competitive components such as unused venders danger, the danger of substitute items, the supplier`s bartering drive, the power exerted by the clients within the advertise and escalated of competition among competitors, whereby they reflect the truth that competition in one industry is so much higher than the presence of current players (Porter, 1985).

The collective quality of these five competitive powers decides the capacity of the firms in an industry to gain, on normal, rates of return on venture in overabundance of the fetched of capital. The quality of the five powers shifts from industry to industry and can alter as the industry advances the five powers decide productivity since they impact the costs, costs, and required speculation of firms within the industry. All of the over five variables, decide the escalated of competition in industry and benefit with each other, identifying the mechanical structure is considered as the starting point for key investigation. Inside an industry, the differential execution of the firms is work of their relative capacity to affect the same five forces (Porter, 1980).

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 create a “competitive advantage” and make a solid position. Concurring to him, the idea basic the concept of bland techniques is that competitive advantage is at the heart of any technique, and in arrange to accomplish competitive advantage the organization must make a choice almost the sort of competitive advantage, it looks for to attain and the scope inside which it'll accomplish it (Porter, 1985).

Competitive advantage 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 develops out of esteem a firm is able to make for its buyers that surpasses the firm's fetched of making it. There are two essential sorts of competitive advantage: fetched authority and separation. Any commerce with a competitive advantage is able to pull in more clients than its competitors by having a few uncommon figure that no one else possesses (Porter, 1985). (Besanko,Drannove 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.

In see of the over, it is clear that a firm accomplishes a competitive edge over its competitors by giving a product/service seen by the client to abdicate more noteworthy benefits and esteem than that of the competitors. In expansion, competitive advantage will continuously result in prevalent execution by the organization, which interprets to higher benefits. Thus, understanding competitive advantage is an progressing challenge for choice creators. Generally, competitive advantage was thought of as a matter of position, where firms possessed a competitive space, built, and guarded advertise share. Competitive advantage depended on where the commerce was found and where it chose to supply administrations. Steady situations permitted this methodology to be effective, especially for huge and prevailing organizations in develop businesses. The capacity to create a supported competitive advantage nowadays is progressively uncommon (Stalk,Evans and Shulman, 1992).

A competitive advantage difficultly accomplished can be rapidly misplaced. Organizations support a competitive advantage as it were so long as the administrations. They provide and the way in which they convey them have properties that compare to the key buying criteria of a considerable number of clients. Supported competitive advantage is the result of an persevering esteem differential between the items or administrations of one organization and those of its competitors within the minds of clients. Hence, organizations must consider more than the fit between the outside environment and their display inner characteristics. They must expect what the quickly changing environment will be like, and alter their structures, societies, and other important variables to harvest the benefits of changing times. Maintained competitive advantage has ended up more of a matter of development and capacity to alter than of area or position (Stalk,Evans and Shulman, 1992).

Competitive advantage is eventually built and kept up by including esteem to clients .Esteem is included by fetched administration. That's advertising rise to quality items or administrations at a lower fetched than competitors, or by separation, i.e., advertising items or administrations that are seen to be special relative to a few imperative characteristic.(Understanding how each competitively pertinent asset and capability influences costs and uniqueness is an vital angle of understanding how, or on the off chance that, each includes esteem to the administrations provided (Barney and Arikan, 2005). Competitive advantage is an advantage over competitors picked up by advertising shoppers more noteworthy esteem, either by implies of lower costs or by giving items that gives the shopper more prominent benefits and administrations that legitimizes the next cost. Agreeing to watchman making esteem gives bits of knowledge into the sources of competitive advantage that he calls” nonexclusive strategies”: an by and large fetched administration technique, a separation technique, or a center methodology for making a defendable position within the long run and beating competitors in a given industry. He contended that by adeptly seeking after the ‘generic strategies’ businesses can achieve noteworthy and persevering competitive advantage over their rivals (Watchman, 1985). 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 sort of firm will be focusing on a wide advertise fragment. One firm in an industry can be the taken a toll pioneer. 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 pioneer at that point is to some degree protects from industry wide cost diminishments (Watchman, 1980). 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 defendable position in the long run and outperforming competitors in a given Industry. He argued that by adeptly pursuing the ‘generic strategies’ businesses can attain significant and enduring competitive advantage over their rivals (Porter, 1980).

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 in areas like research and development, service, sales force, advertising and so on (Porter, 1985).

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, and 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. As it were one firm in an industry can be the taken a toll pioneer 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 pioneer at that point is to some degree protects from industry wide cost diminishments. The moment nonspecific procedure is separation. 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 (Porter, 1985).

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. 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 (Porter, 1985).

Center technique has two variations- taken a toll center and separation center. Cost focus aims at achieving cost advantage while differentiation focus is about seeking differentiation in a target segment. Taken a toll center abuses contrasts in fetched behavior in a few portions, whereas separation center abuses the extraordinary needs of buyers in certain fragments. Indeed in spite of the fact that the center technique does not accomplish fetched or separation from the point of view of the showcase as an entirety, it does accomplish one or both of these positions vis-a-vis its contract showcase target. The firm accomplishing center may moreover possibly gain aboveaverage returns for its industry. Its center implies that the firm either encompasses a moo taken a toll position with its key target, tall separation, or both. As we have discussed in the context of cost leadership and differentiation, these positions provide defenses against each competitive force (Porter, 1985).

Small companies, the better ones, usually thrive because they serve narrow market niches. Market focus allows these businesses to compete based on 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. Focus may also be used to select targets least vulnerable to substitutes or where competitors are the weakest (Pearce & Robinson, 2000).

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 inside the middle” is “almost guaranteed profitability”. It either loses the high-volume clients who request moo costs or must offered absent its benefits to induce this trade absent from low-cost firms. However it moreover loses high-margin businesses-the cream-to the firms who are centered on high-margin targets or have accomplished separation in general. The firm stuck in the middle also probably suffers from a blurred corporate culture and a conflicting set of organizational arrangements and motivation system (Porter, 1980).

### 2.4 Competitive Strategies

Today's energetic markets and advances have called into address the maintainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and re-engineering (Safford, 2005).

Sensational operational changes have brought about, but seldom have these picks up interpreted into economical productivity. In addition, steadily, the devices have taken the put of strategy. As supervisors thrust to move forward on all fronts, they move assist absent from practical competitive positions. Porter (1980) argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In differentiate, the quintessence of procedure is choosing a one of a kind and profitable position established in frameworks of exercises that are much more troublesome to coordinate.

A winning competitive strategy is always founded on consistently understanding and predicting changing market conditions and customer needs. The objective of much of commerce technique is to realize competitive methodologies. A competitive advantage exists when the firm is able to convey the same benefits as competitors but at a lower fetched (taken a toll advantage), or convey benefits that surpass those of competing items (separation advantage).In this way, a competitive advantage empowers the firm to make prevalent esteem for its clients and prevalent benefits for itself. Fetched and separation preferences are known as positional focal points since they portray the firm's position within the industry as a pioneer in either fetched or separation. A resource-based view emphasizes that a firm utilizes its resources and capabilities to create a competitive advantage that ultimately results in superior value creation (Safford, 2005).

Competitive methodologies guarantee “development that meets wants of the show without compromising the capacity to meet future needs”. It is the delayed advantage of actualizing a few interesting esteem making methodology based on the interesting combination of inner organizational assets and capabilities that cannot be imitated by competitors. For organizations, this involves the acquirement of required assets and working within the setting of the supportability guidelines and obligations from a proactive viewpoint. It is the advantage that enables the commerce to outlive against its competition over a long period of time (Kihumba, 2008). A company has competitive strategies whenever it has an edge over its rivals in securing customers and defending against competitive forces. Competitive strategies are born out of core competencies that yield long-term benefit to the company. a center competence as an range of specialized ability that's the result of harmonizing complex streams of innovation and work action.

They advance clarify that a center competence has three characteristics to begin with it gives get to to a wide assortment of markets, besides it increments seen client benefits and finally it is hard for competitors to mimic. Sources of competitive advantage incorporate tall quality items, prevalent client benefit and accomplishing lower costs than its rivals. To succeed in building competitive strategies, a firm must try to provide what buyers will, perceive as superior value. This entails either a good quality product at a low price, or a better quality product that is worth paying more for (Safford, 2005).

Competitive advantage is sustained when other firms are not able to duplicate a firm’s strategy. Thus, sustained competitive advantage exists only after efforts to replicate that advantage have failed. It is for this reason that organizations are centering on strategies and techniques that are troublesome to mimic. Business strategy development is concerned with matching customers’ requirements (needs, wants, desires, preferences, and buying patterns) with the capabilities of the organization, based on the skills and resources available to the business organization, leading to the issue of core competence. They posit that the concept is about something the organization does at least as well as other organizations, or preferably better than, any other organization in the market thus competitive strategy defines the distinctive approach which the firm intends to use in order to succeed in each of its strategic business areas (Barney and Arikan, 2005).

### 2.5 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 separation procedure, a bank can be special in its industry or items in zones that are profoundly esteemed 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 remunerated by charging a premium cost. 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 (Johnson & Whittington, 2008).

Under focus strategy, a bank’s utilization of focus strategy implies its choice of narrowing of competitive scope within the banking industry. The centering bank chooses a fragment or gather of fragments within the industry and tailors its methodology to serving them viably and productively to the avoidance of others. Center methodology may be taken a toll center or separation center. In taken a toll center procedure, a bank looks for fetched advantage in its target section whereas in separation center; a bank looks for separation in its target fragment. Both variations of the center methodology rest on contrasts between a target portion and other fragments.The target sections must either have buyers with bizarre needs or the generation and conveyance framework that best serves the target section must contrast from that of other sections. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments (Dess and Davis, 1984).

### 2.6 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. The address “what drives performance?’ is additionally at the beat of the minds of supervisors and policy creators, as the primary step in understanding prevalent execution and subsequently, endeavoring 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 Starvous , 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. 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 (Venkatraman and Ramanujam, 1987).

On the other hand a broader conceptualization of trade execution would incorporate accentuation on markers of operational execution (i.e., nonfinancial) in expansion to pointers of budgetary execution. Beneath this system it would be coherent to treat such measures as market-share, modern item presentation, item quality, showcasing viability, fabricating value added, and other measures of innovative effectiveness inside the space of trade execution(Venkatraman and Ramanujam, 1987).

### 2.7 Factors Influencing Choice of Strategies

Companies are encouraged to make decisions to survive in a hypercompetitive world, with rapid technological change and the strategic choices that they must do and integrate are related with goals, range of products and services, competitive strategy, appropriate level of coverage and variety, organizational structure, administrative systems and labor policies (Rumelt and Schendel, 1991). The survival within the show competitive scene is guaranteed by huge ventures, and the results of disappointment are serious, so the successful implementing of procedure may be a pivotal component of the method. Vital administration (too called “policy” or “strategy”) is related to the course of an organization, counting the issues that are at the heart of best administration distractions and those who are related with the reasons why a trade succeeds or falls flat.

definition issues are related to competitive contention and competitive elements, trade and corporate level investigation, the worldwide measurement, and agreeable issues and mergers and securing procedures, whereas technique usage issues are related with corporate administration, organizational structure and controls, key administration and key enterprise. Defining methodology could be a troublesome assignment, due to the tall level of vulnerability hampering the expectation of future patterns. An indeed harder work is the execution of technique, due to its forbid relationship with technique detailing, which is materialized within the organizational structure committed to achieve the organization objectives. Within the writing there's not a clear assertion concerning the prevailing system related to the strategy execution handle. On the opposite, within the field of key definition a few prevailing systems in writing incorporate qualities, shortcomings, openings and dangers (SWOT) examination and industry structure investigation (Okumus, 2003). More work is needed in the strategy implementation field from the perspective of the resource‐based theory, as strategy implementation could be a source of sustained competitive advantage on itself, although dependent on other strategic resources controlled by companies that are used in a complementary way. Supervisors know small of methodology usage and they are not prepared to actualize methodology, as it were to arrange. Another issue is related to the common conviction that methodology execution plays a minor part on their work, being more satisfactory for lower levels of administration, overlooking that their commitment is basic to a fruitful usage. The top obstacles that managers face are: Inability to manage change; Poor or vague strategy; Not having guidelines or a model to guide implementation efforts; Poor or inadequate information sharing; Unclear responsibility and accountability; Working against the organizational power structure (Barney and Arikan, 2005).

### 2.8 Empirical evidence for porter’s generic strategy

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.

The execution effect of bland methodologies in keeping money. 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 (Powers and hahn, 2004).

(Allen and Helms, 2006)examined the performance impact of generic strategies based on a crosssectional 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.

(Gathoga, 2001) centered on competitive methodologies by commercial banks in Kenya. The think about uncovered that banks in Kenya utilize different implies in arrange to stay competitive, he moreover concluded that extension into other ranges by opening modern branches has too, been utilized as a technique.

(Kimotho, 2012)did a study on the impact of competitive strategies on the financial performance of CFC Stanbic Bank Limited. A case think about approach was utilized within the consider. The results attributed the improvement in financial performance on the competitive strategies that the bank has been undertaking in the past years of its existence. 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 effectiveness is looked for by administration, the less separated the company would be, whereas more noteworthy separation would be related with a less effective 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 accentuation of a separation procedure is on accomplishing (indeed at significant taken a toll) prevalent quality and picture all through the esteem chain, whereas the accentuation of a low-cost methodology is on bringing down taken a toll wherever conceivable. Because of difficulties in reconciling apparently opposed strategic thrusts, profitable companies tend to compete with one strategy only (Dess and Davis, 1984).

### 2.9 Research gap

At different time different researcher was clearly investigate the impact of generic strategy on performance. Their solution was classifying in to different cluster and apply different types of strategies like those that cost leadership stuck in the middle, focus and differentiation. None of them, does not address the factors affecting the effectiveness of competitive strategy. Nowadays different banks are selling their shares to join the industry. Therefore, banks should protect their competitive advantage. This research tries to fill the gap by assessing the effectiveness of competitive strategy in response to sustainable competitive advantage.

### 2.10 Conceptual framework

Competitor benchmarking

Effective implementation

impleme

Effectiveness of Competitive

Strategies

Market share growth

Sustainable

-

Competitive advantage

### CHAPTER THREE

### RESEARCH METHODOLOGY

### 3.1 Research setting

Zemen bank continued to moderately expand its service outlets in Addis Ababa and selected regional administrative cities. Now a day the total numbers of branches and kiosk banking centers have reached one hundred outlets. This research will only covered head office and special banking centers that found in Addis Ababa.

### 3.2 Research design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in the procedure. The research design which will be used for this study is a case study and focused on Zemen bank S.C. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. According to Yin(1984), case study research excels at bringing an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research.

### 3.3 Target Population

The target populations for this study will be senior employees of Zemen bank. The researcher will purposely select senior staffs who were working at main branch and Addis Ababa branch offices. These employees are 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 research will use a purposive sampling technique to obtain information from those senior employees of the bank who have most readily or conveniently available information. 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 (Uma Sekaran, 2003). Purposive sampling selected in order to answer the research question; the researcher believes that senior staffs and selected strategy formulation officers can give the accurate answer. The total number of employee for Zemen bank is 1500. (Annual report of Zemen bank, 2023). Among the 197 are senior staffs. The researcher will purposively draw sample that were suited for the questions. To ensure appropriate response data will be collected from managerial staff and employee with responsibilities of strategy formulation and implementation. The researcher selects 177 respondents by purposive sampling techniques from Addis Ababa banking centers.

### 3.5 Data Source and Collection method

In order to establish the effectiveness of generic strategies of Zemen bank, the study will use both primary and secondary data. A closed ended type of questionnaire will be used to collect data. The choice of the instrument is based on the fact that it makes it easier to get adequate and accurate information necessary for the research. Secondary sources of data will also generated through a review of annual report of Zemen bank. 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 review of documents will also help to understand the key facts about the cause and impact of the subject under study. The documents will reviewed by referring most recent information from five years consecutive annual reports and different publications. The document reviews will help to triangulate the data collected by the questionnaires and interviews.

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