



Mediation of Competitive Advantage among Customer Orientation and Banking Sector Performance in Ethiopia

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ABSTRACT

This study investigated the function of competitive advantage in mediating the consequences of customer orientation on company performance. Few studies have looked at how customer orientation affects company performance using competitive advantage as a mediator in emerging economies, notably in sub-Saharan Africa. This study made an effort to do research to fill theoretical, evidence and knowledge void gaps. Quantitative data was gathered using a likert scale based 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 three hypothesized variables. The outcomes demonstrated that, via the mediation of competitive advantage, customer orientation has a favorable, considerable impact on performance of business. According to the findings of this study, commercial banks should employ customer orientation as a means of gaining a competitive edge. Additionally, it was suggested that future studies examine the consequences of customer orientation on competing companies.

KEY WORDS

*Customer Orientation;
Performance of Business;
Competitive Advantage;
Commercial Bank*

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1. INTRODUCTION

In today's competitive environments, customers are a scarce resource (Puspaningrum, 2020). To survive banking industry's needed to attend and attract a sufficient numbers of customers who are willing to purchase their products and service at a price which at least covers the costs involved (Priyanto & Murwaningsari, 2022). Needs and wants of customers are usually changing from time to time and recognizing this change is necessary for banking industry's success (Sampaio & Régio, 2022). Commonly, banks also need to pay attention to rivals because rivals good and services are likely to preferences and choices (Aqmala & Putra, 2021).

Customer orientation is an approach that claims to give the banking industry a unified goal and distinct perspective that will improve the availability of expertise and comprehension aimed at improving the experience of clients and the banking industry (Gonu et al., 2023; Rahman et al., 2021). It is the customers and it is believed to lead to the service of better value for customer and contributes to the banking industry's ability to out-perform (Muis & Isyanto, 2021; Puspaningrum, 2020). Banking industries have an advantage that can apply customer orientation in customer knowledge, which can be a competitive advantage (Bankole et al., 2022; Yuliantari & Pramuki, 2022). Thus, a customer orientation is expected to be beneficial for highly bank industries and other types of business.

Customer orientation is the strategy and action of continuously assessing the demands and desires of consumers in order to acquire and delight them. The business sector will operate better if client orientation is used (Domi & Musabelliu, 2020). Customer orientation is a key factor that influences competitive advantage and achieves high performance, thus studying and researching this topic is crucial (Gontur et al., 2022; Aqmala & Putra, 2021). Customer orientation is an operational philosophy that places the customer at the centre of all corporate operations.

Another reason which makes customer orientation important is its tie to performance of business because customer orientation creates a crucial victory factor for performance of business (Domi & Musabelliu, 2020 and Dos Santos et al., 2020). Consequently, the final success of any businesses lie within the industry's talent to serve its customers, which mean that industry should implement more competitive advantage, such as customer orientation, to advance its competitiveness (Muis & Isyanto, 2021). Businesses will perform better in the banking sector if it can get a competitive edge (Bankole et al.,

2022). Having a competitive edge helps businesses function better and more effectively (Hendi et al., 2022; Priyanto & Murwaningsari, 2022). Additionally, the influence of client orientation on company efficiency might be mediated by competitive advantage (Sampaio & Régio, 2022).

The article examined the notion of competitive advantage in the context of the Ethiopian banking sector. It also explores the factors that contribute to a bank's ability to outperform its competitors, such as superior customer service, innovative products, efficient operations, or cost leadership. The article investigates the potential mediating role of competitive advantage among customer orientation and banking sector performance. Overall, the article aims to contribute to the understanding of how customer orientation, competitive advantage, and banking sector performance are interconnected in Ethiopia, shedding light on the factors that drive success in the Ethiopian banking industry and potentially offering implications for practitioners and policymakers.

Furthermore, this investigation aims to fill in research gaps founded in prior research's findings about the impact of customer orientation on company success. Last but not least, this study intends to demonstrate the function of a competitive edge in mediating focus on customers to enhance the performance of business of chosen commercial bank branches in Ethiopia's Dilla area.

2. THEORETICAL PARADIGM

The article "Mediation of Competitive Advantage among Customer Orientation and Banking Sector Performance in Ethiopia" drawn upon five related theoretical lens's to provide a theoretical framework for understanding the relationships among customer orientation, competitive advantage, and banking sector performance. Here are some theories that could be relevant:

a. Resource-Based View (RBV): The RBV given by Barney suggests that a firm's competitive advantage and market stranding are decided by its unique capabilities and resources (Hanaysha & Mehmood, 2022). In this context, the article ma explore how customer orientation, as a strategic resource, can contribute to the development of competitive advantage for banks in Ethiopia (Rahman et al., 2021), which in turn affects their performance outcomes (Amegavie et al., 2019; Sampaio & Régio, 2022; Kelvin, 2019; and Abuzid & Abbas, 2017),

b. Service-Dominant Logic: Service-Dominant Logic manifested the co-creation of added values

through exchange of services among customers and firms (Yuliantari & Pramuki, 2022). The article may draw on SDL to highlight the importance of customer orientation in the banking sector, as banks need to understand and meet customer needs to deliver value (Islam & Qamari, 2021). It may argue that customer orientation can lead to a competitive advantage by enabling banks to provide superior and personalized services to their customers (Bankole et al., 2022).

c. Relationship Marketing Theory: Relationship marketing theory focuses on building and maintaining trust based association with users (Digdowiseiso & Lestari, 2021). The article may discuss how customer orientation, which emphasizes understanding and satisfying customer needs, aligns with the principles of relationship marketing (Mosa, 2022). It may propose that customer-oriented banks are more likely to develop strong customer relationships, leading to a competitive advantage and improved banking sector performance (Abdigolbaghi & Sehhat, 2018).

d. Dynamic Capabilities Theory: A dynamic capability theory suggests that firms' ability to adapt, innovate, and learn is crucial for gaining and sustaining a competitive benefit (Yang et al., 2022). In the perspective of the article, the focus may be on how customer orientation contributes to the development of dynamic capabilities in the Ethiopian banking sector (Kimiti et al., 2020). Customer-oriented banks may be better positioned to identify and respond to market changes, innovate their products and services, and adapt to evolving customer preferences, leading to improved performance (Aqmala & Putra, 2021; G. and Mishra, 2017).

e. Institutional Theory: Institutional theory emphasizes the influence of external institutional factors on organizations (Hendi et al., 2022). The article may consider the institutional context of the Ethiopian banking sector and how it shapes the relationship among customer orientation, competitive advantage, and banking sector performance (Abuzid & Abbas, 2017). It may explore how institutional pressures, such as regulatory requirements or societal norms, influence banks' customer orientation strategies and their ability to achieve a competitive advantage and superior performance (Priyanto & Murwaningsari, 2022).

By incorporating all these above 5 these theories, the article provided a broad theoretical foundation for understanding the mediation of competitive advantage among customer orientation and banking sector performance in Ethiopia, offering insights into

the underlying mechanisms and factors at play in this context.

2.1 Statement of Problem

Unlike previous studies, this research explicitly investigates the mediating effect of competitive advantage in the relationship between customer orientation and commercial banking sector performance. Researchers like Mosa (2022); Digdowiseiso & Lestari (2021) and Abdigolbaghi & Sehhat (2018) examined the relationship between customer orientation and commercial banking sector performance. Found a positive and significant association between customer orientation and performance indicators such as profitability and customer satisfaction but did not investigate the mediating effect of competitive advantage in the relationship. Likewise researchers like Cakir et al. (2022); Tarabieh (2015); Kimiti et al. (2021) Kimiti et al. (2020) and Mishra (2017) investigated the impact of competitive advantage on commercial banking sector performance and revealed that competitive advantage positively influences financial performance and market share. But did not explore the role of customer orientation as an antecedent variable or the mediating effect it may have on the relationship between competitive advantage and performance.

Investigators like Yang et al. (2022); Aqmala & Putra (2021); Tarabieh (2015), Cakir et al., (2022); Kimiti et al. (2021); Kimiti et al. (2020); Mishra (2017), Bankole et al. (2022) and Park et al. (2021) explored the influence of customer orientation on competitive advantage in the commercial banking sector. But identified a inverse relationship between customer orientation and competitive advantage. Also they did not directly examine the impact of competitive advantage on the performance of commercial banks or the mediation role it plays between customer orientation and performance.

Therefore contradictory evidences and inconclusive results are identified in previous studies. To fill this contradictory evidence gap researchers is motivated to conduct this present research to add insight into existing body of knowledge and adds value to the literature.

Also different researchers used different theories to study the same relation. Like Resource-Based View (RBV) used by Hanaysha & Mehmood (2022); Rahman et al. (2021); Amegavie et al. (2019); Sampaio & Régio (2022); Kelvin (2019); and Abuzid & Abbas (2017), But Yuliantari & Pramuki (2022);

Islam & Qamari (2021) Bankole et al. (2022) used the Service-Dominant Logic (SDL) theory to study the relation between competitive advantage and performance. Similarly other researchers used the different theoretical lens. Like Digdowiseiso & Lestari (2021); Mosa (2022) Abdigolbaghi & Sehat (2018) uses the Relationship Marketing Theory as a theoretical lens for their study. Dynamic Capabilities Theory used by (Yang et al., 2022); Kimiti et al. (2020). Aqmal & Putra, 2021; G. and Mishra, 2017). Institutional Theory used as theoretical lens by Hendi et al. (2022); Abuzid & Abbas (2017) and Priyanto & Murwaningsari, (2022).

Therefore it is imperative on the base of previous past reviewed literature no universal theory will pave way forward for the present researchers. Different researchers used different theories lenses to study the same relation. therefore to fill this theoretical gap researchers wants to use deductive approach to combine different theories to extent the present knowledge gap. The current study aims to bridge the existing research gaps and contribute novel contribution to the literature by the current study.

One theoretical knowledge gap in the context of the mediation of competitive advantage among customer orientation and banking sector performance in Ethiopia is the lack of comprehensive theoretical frameworks that specifically address this relationship. While there is existing research on customer orientation, competitive advantage, and banking sector performance, there is a need for a theoretical model that explicitly considers how customer orientation influences competitive advantage and, in turn, how competitive advantage impacts banking sector performance. Developing such a theoretical framework would contribute to a deeper understanding of the underlying mechanisms and processes involved in the relationship between these variables in the Ethiopian banking sector.

On a practical level, there is a knowledge gap regarding the specific strategies and practices that Ethiopian banks can adopt to enhance their customer orientation and ultimately achieve a competitive advantage. While the importance of customer orientation is widely acknowledged, there is a need for empirical studies that investigate the specific actions and initiatives that banks in Ethiopia can undertake to improve their customer orientation. These studies could explore factors such as customer relationship management practices, service quality enhancements, digital transformation initiatives, and product/service innovation strategies that can effectively enhance customer orientation in the Ethiopian banking sector. Understanding these

practical aspects would provide valuable insights for banks and policymakers aiming to improve banking sector performance by fostering customer-centric approaches. Also in the Ethiopian context, limited research has focused specifically on the mediation role of competitive advantage between customer orientation and commercial banking sector performance.

3. REVIEW OF LITERATURE

3.1. Customer Orientation

A fundamental subordinate idea of market orientation is customer orientation. Generally speaking, it is a significant concern for all businesses, but especially for those in the service sector. A concept known as "customer orientation" focuses on the client, the employee, and the industry in order to gather market data, anticipate future consumer wants, and meet those needs by providing goods and services that are more valuable and improving corporate performance (Hanaysha & Mehmood, 2022 and Muis & Isyanto, 2021). In additional, customer orientation behavior can shape a noble connection among service providers, customers and then take in enhancing performance of business (Islam & Qamari, 2021).

In the business world, a focus on customers results in the production and preservation of buyer worth, which is then transformed into preference among clients, contentment, and engagement (Sampaio & Régio, 2022; Abuzid & Abbas, 2017). Thus, customer orientation main dimension, which are product, preference, retention and satisfaction, are considered significant strategic orientation. Presently, an organization's capacity to survive in a cutthroat market depends on how focused it is on its customers. In other words, maintaining consumer preferences and ensuring them of their contact with their anticipated offerings in the smallest time frame while offering the highest product quality are the end goals of maintaining and performing a business or sector (Mosa, 2022; Digdowiseiso & Lestari, 2021 and Abdigolbaghi & Sehat, 2018).

Although, Customer orientation is excellence in customer service (Gonu et al., 2023b), satisfaction for the customer (Mistreat, 2021), products with unique feature (Murerwa et al., 2022), and preference (Islam & Zhe, 2022). Thus, show that customer orientation is essential in banking industry. The most frequent customer orientation explored proxies' used by previous studies are Product, Preference, Retention and Satisfaction (Sampaio & Régio, 2022; Bankole et al., 2022 and Abuzid & Abbas, 2017).

3.2. Performance of business

Performance of business may be thought of as a multifaceted idea that includes factors other than just revenue (Ghlichlee & Bayat, 2021). Abuzid & Abbas (2017) stated performance of business as a collected end result of business process and activity. Meanwhile, Rahman et al. (2021) defined performance of business as the extent to that industries achieved its business goal. Domi & Musabelliu (2020) state customer orientation as customer's description of performance differentials among businesses. Customer orientation improves a business's performance by providing competitive advantage.

There are significant empirical evidences that have tied customer orientation with performance of business. It is found from previous researches that there is a direct association (Hanaysha & Mehmood, 2022; Rahman et al., 2021; Amegavie et al., 2019); or indirect (Sampaio & Régio, 2022; Kelvin, 2019; and Abuzid & Abbas, 2017), or dual effect (Hanafi & Yahia, 2022 and Ghlichlee & Bayat, 2021) among customer orientation and performance of business .

Rahman et al. (2021) define company performance as the degree to which the sector is able to satisfy both its own demands for survival and the preferences of its clients. The operationalization of company performance is described by Ghlichlee & Bayat (2021) and Oluwatoyin et al. (2018) as the definition the researcher of this study would use. Monetary and non-monetary success of company components may be assessed by market share for non-financial performance and sale growth for financial performance (Enad & Gerinda, 2022; Mokhtaran & Komeilian, 2016). Therefore, one of the key business success indicators in the banking sector is his customer orientation.

The most frequent business performance explored proxies' used by previous studies are Sale growth and Market share (Enad & Gerinda, 2022; Hanaysha & Mehmood, 2022). Sales growth and market share are two important indicators that directly reflect the impact of customer orientation on the banking sector's performance. Customer orientation focuses on meeting customer needs and preferences, which should ultimately lead to increased sales and market share. By measuring these parameters, we can assess the effectiveness of customer-centric practices in attracting and retaining customers, ultimately influencing the overall performance of the banking sector (Enad & Gerinda, 2022).

Sales growth and market share are often readily available and regularly reported by banks and industry associations. These metrics are commonly used in financial reporting and benchmarking studies, making them reliable and comparable across different banks and time periods. Using readily available data allows for a more efficient and cost-effective analysis (Hanaysha & Mehmood, 2022).

While the Balanced Scorecard (BSC) framework includes multiple perspectives for performance measurement, focusing on sales growth and market share provides a comprehensive evaluation of the banking sector's effectiveness in attracting customers and expanding its market presence. These parameters capture both the financial and market aspects of performance, which are crucial for assessing the impact of customer orientation on overall organizational success (Kimiti et al., 2020; Mishra, 2017; Bankole et al., 2022 and Park et al., 2021).

3.3. Competitive Advantage

Abdigolbaghi & Sehhat (2018) stated advantage in competitive terms as an improvement attained by an industry in a rivalry by offering extra significant benefit than opponents. An industry is supposed to have engaged an advantage in competitive situation if it has a advantage in competitive terms in resource that can produced greater worth at an inferior cost.

Advantage in competitive terms comprehension needs an inclusive image of performance of business and rivals (Yang et al., 2022; Islam & Qamari, 2021) because advantage in competitive terms come from numerous assorted activities, like as merchandise quality (Hanaysha & Mehmood, 2022; Rahman et al., 2021), service quality (Bankole et al., 2022; Puspaningrum, 2020), Technology capability (Yuliantari & Pramuki, 2022 and Dos Santos et al., 2020), and Time (Raewf et al., 2021 and Al-dulaimi, 2019). Advantage in competitive terms can be calculated in a lot of customs, like product quality, service quality, and technology capability (Yang et al., 2022; Aqmala & Putra, 2021 and Tarabieh, 2015), Time of delivery and cost leadership (Cakir et al., 2022; Kimiti et al., 2021; Kimiti et al., 2020 and Mishra, 2017). According to Bankole et al. (2022); Park et al. (2021).

Banking industries advantage in competitive terms can be seen from the exceptionality of their merchandise quality, service quality, technology capability, and lowest costs. Nyoman et al. (2020) designates advantage in competitive terms as the outcome of customer orientation. Based on the above, that leaves customer orientation as their main

system for creating competitive advantage, hence, this study focuses on the d quality of product, service, technology capability, and time. Competitive Advantage most frequent used determinates are Product quality, Customer service, Technology capability and Lower cost (Yang et al., 2022; Aqmala & Putra, 2021; G. Kimiti et al., 2020 and Mishra, 2017).

4. EMPIRICAL LITERATURE AND DEVELOPMENT OF HYPOTESIS

4.1 Customer Orientation and performance of business

Each sector has a fascination in recognizing how to evaluate the success of the services or goods being customers, therefore performance of business is one of the metrics used to analyses the accomplishments of the sector's approach (Dos Santos et al., 2020). The effectiveness of the banks in fostering a client orientation determines the profitability of the firm (Puspaningrum, 2020). Gonu et al. (2023a), Mokhtaran & Komeilian (2016), prove that customer orientation contributes to improving performance of business.

A company with a strong focus on the demands of the client should be equipped to foresee modifications to these demands and create new goods and services (Hanaysha & Mehmood, 2022). Therefore, implementing a customer-oriented strategy should enhance a company's capacity to adapt operational procedures in response to the adjustments (Rahman et al., 2021). The "customer orientation" strategy of a corporation puts the needs of the customer ahead of its own (Amegavie et al., 2019). Businesses that put their customers first understand that they cannot prosper unless they constantly increase their customer focus (Sampaio & Régio, 2022). It's a way of approaching issues that links your business's goals with the interests of your customers (Kelvin, 2019). Based on the result of past study, the first hypothesis is:

H1: Customer orientation significantly have a effect on performance of business .

4.2 Customer Orientation and Competitive Advantage

Additionally, a corporation is better equipped to create a competitive advantage through creativity and industry distinction the more customer-oriented (Mosa, 2022). On the other hand, a rival orientation has a detrimental influence on a firm's superiority in differentiation in the marketplace. Satisfaction with

customers is the main goal of customer orientation, which is thought to result in the creation of higher value for consumers and help the company outperform the competition, giving it a competitive advantage (Digdowiseiso & Lestari, 2021). When implemented properly, a market-oriented strategy may help a company grow into new markets and retain consumers (Abdigolbaghi & Sehhat, 2018).

Market focus may sporadically make known buyer demands that are simply moreover costly or impractical to execute in order to perform better than your business rivals (Bankole et al., 2022). According to John Narver and George Slater's (1990, 21–22), there are three primary aspects that make up the market orientation: a customer orientation through which a company aims to comprehend its target clients; an opponent orientation through which a company aims to comprehend what its rivals are expecting in an ever-shifting marketplace (Yuliantari & Pramuki, 2022).

H2: Customer orientation significantly have a effect on Competitive Advantage.

4.3 Competitive Advantage and performance of business

A point of differentiation is the ability of a company to produce goods or services quicker, with greater efficiency, or for a lower cost than its competitors (Puspaningrum, 2020). These factors allow the manufacturing unit to beat its rivals when it comes to of sales or earnings margins (Raewf et al., 2021). According to research by Al-dulaimi (2019) there is a big connection among competitive edge and corporate performance. Companies with competitive advantages can increase their profitability since they are distinctive and difficult for rivals to copy. Corporations are forced by fierce competition in the marketplace to improve their offerings, which are subsequently offered to clients as more customized, efficient, and more effective options (Dos Santos et al., 2020).

The users' most obvious gains from rivalry are reduced costs and greater purchasing power. Due to being able to offer clients lower pricing, the business has an advantage over rivals (Yang et al., 2022). 2. Variation Lead: A corporation gains an edge over its competitors when it provides clients with distinctive or outstanding goods or services which are deemed to be more valuable than those provided by its rivals (Aqmala & Putra, 2021). A firm can expand its reach in the marketplace, improve its revenue, and, with the help of an edge in competition, enter novel markets (Cakir et al., 2022; Tarabieh, 2015). Additionally, it

might assist in protecting a company against the possibility of rivals gaining access to its trade (Kimiti et al., 2021). Frequencies of delivery along with cost dominance are the ways that a company may get an edge over its rivals (Kimiti et al., 2020 and Mishra, 2017).

H3: *Competitive Advantage significantly have a effect on performance of business.*

4.4 Competitive Advantage Mediation among Customer Orientation and performance of business

The customer orientation established by the industry can make the industry tough in getting a advantage in competitive terms. Puspaningrum (2020) describe that the industry customer orientation effectiveness has effect on growing competitive advantage. M. Z. Islam & Zhe (2022) and Rahman et al. (2021) conclude that customer orientation adds to accomplishment of performance of business , such as sale growth and market share. In line with the outcomes of study conducted by El Saghier (2021),

Puspaningrum (2020), Milani & Salavati (2018), and Abuzid & Abbas (2017), competitive advantage have a positive effect on improving performance of business .

Competitor utilisation can either have an immediate effect on company efficiency or act as a mediator among customer orientation and operations performance (Hendi et al., 2022; Priyanto & Murwaningsari, 2022; Sampaio & Régio, 2022; Suandi & Yulihastri, 2022; Bhandari & Amponstira, 2021; Puspaningrum, 2020; Daengs GS et al. According to Suandi & Yulihastri, 2022, Dos Santos et al., 2020, Milani & Salavati, 2018, and Allaoui Mohammad Elhassen & Tidjani Chemseddine, 2017, customer focus helps boost company revenue through competitive advantage. According on the findings of earlier research, the hypotesis is:

H4: *mediation of Competitive advantage can affect the customer orientation on performance of business.*

Empirical explanation based investigate replica is as follows:

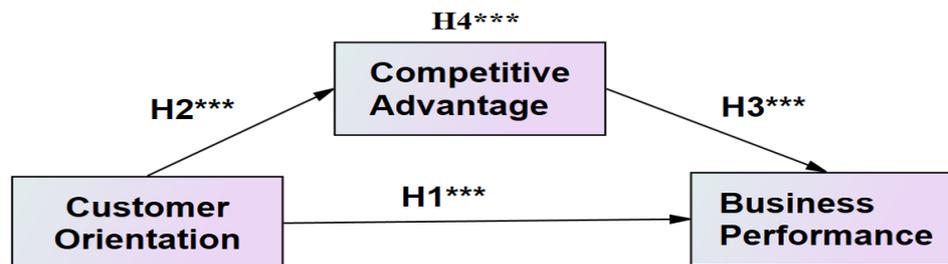


Figure 1: Research Framework

Source: Investigators own framework (2023)

5. Method of Research

5.1 Research Design and approach:

Explanatory research design is founded suitable for present research. Explanatory research design was used to study the mediation of competitive advantage among customer orientation and banking sector performance in Ethiopia due to its ability to explore the relationships among variables and provide a deeper understanding of the underlying mechanisms at play. In this specific context, explanatory research design is valuable as it allows researchers to investigate the complex interplay among customer orientation, competitive advantage, and banking sector performance, aiming to uncover the mediating effects that may exist within these relationships.

This study adopted a quantitative research approach to examine the association among customer

orientation and banking sector performance in Ethiopia. The design involves the collection and analysis of numerical data to determine the advantages of customer orientation on the performance of the banking sector. Quantitative research is particularly used by the researchers for testing hypotheses. In this context, researchers formulated hypotheses about the relationship among customer orientation, competitive advantage, and banking sector performance and then test these hypotheses using statistical methods.

5.2 Constructs:

a) Customer Orientation: This construct refers to the extent to which banks in Ethiopia prioritize customer needs and preferences in their operations. It can be measured using indicators such as customer satisfaction, customer loyalty, customer-centric policies, and personalized services.

b) Banking Sector Performance: This construct represents the overall effectiveness and efficiency of the banking sector in Ethiopia. It can be accessed through indicators such as profitability, asset quality, liquidity, market share, and financial stability.

Justification for Using Sales Growth and Market Share as Parameters: Sales growth and market share are two important indicators that directly reflect the impact of customer orientation on the banking sector's performance. Customer orientation focuses

Table 1: Construct of variables and indicators

Determinant	Proxies	Reference
Customer Orientation	Product	(Sampaio & Régio, 2022; Bankole et al., 2022 and Abuzid & Abbas, 2017)
	Preference	
	Retention	
	Satisfaction	
Competitive Advantage	Product quality	(Yang et al., 2022; Aqmala & Putra, 2021; G. Kimiti et al., 2020 and Mishra, 2017)
	Customer service	
	Technology capability	
	Lower cost	
Performance of business	Sale growth	(Enad & Gerinda, 2022 and Hanaysha & Mehmood, 2022)
	Market share	

Source: Researchers Self Meta Analysis (2023)

5.3 Data Collection:

To assess customer orientation, primary data was collected through surveys by using 5 point likert scale structured questionnaire administered to bank customers in Ethiopia Dilla branch. The survey questionnaire was designed to measure customer orientation, Competitive Advantage and Performance of business centric practices.

5.4 Sampling and Population

The target audience consisted of the bank clients of the Ethiopia Dilla branch. The approach of stratified random sampling was utilised to guarantee inclusion from various areas and banks. The current study used a cross-sectional investigation approach. The research approach that was used was explanatory in nature. The 210,039 clients of the Commercial Bank of Ethiopia, which operates six bank branches in the Dilla area, comprise the population under study. The investigation used an arithmetical technique, as suggested by Dillaman (2000), to determine the

on meeting customer needs and preferences, which should ultimately lead to increased sales and market share. By measuring these parameters, we can assess the effectiveness of customer-centric practices in attracting and retaining customers, ultimately influencing the overall performance of the banking sector.

c.) Competitive advantage: Tested as a mediating variable with its proxies Product quality, Customer service, Technology capability and lower cost.

sample size using a sampling equation.

$$n = \frac{[(N) (p) (1-p)]}{[(N-1) (B/C)^2 + (P) (1-P)]}$$

$$n = \frac{[(210141) (1/2) (1-1/2)]}{[(210141-1) (.1/2/1.96)^2 + (1/2) (1-1/2)]}$$

$$n = 383$$

This sampling technique is crucial to decrease the possibility of biases in the sample process and minimized the chance of systematic mistake. Additionally, it is preferable to identify representative sample from which generalizable inferences can be made about population. As a result, the proportional stratified method's sample size for each stratum corresponds to that stratum's population size in the bank branches.

Proportional stratified sampling method used to ensure that each stratum, or subgroup, within a population is represented in the sample in proportion to its size within the population. This method is particularly was used because population have

distinct subgroups with varying characteristics. By using proportional stratified sampling, researchers ensured that the sample accurately represents the diversity within the population of bank branches. Then, number of sample size minimized to 381, next stage is to take samples using the convenience sampling techniques. Respondents were selected by using convenience sampling, which is a sort of non-probability (Bhardwaj, 2019). Ethiopia’s banking sector manifested practical challenges in terms of geographical dispersion and varying levels of accessibility. Convenience sampling accommodates these challenges by enabling researchers to engage with participants who are geographically dispersed but easily reachable.

5.5 Method for Data Analysis

KMO determines the amount of data sufficiency and internal consistency of data. Total Variance Explained was employed on principle component analysis. It was to find the number of dimensions hidden in complex data set on the base of Eigen values (more than 1). Confirmatory factor analysis (CFA) was conducted to measure the capacity of observed variables to explain the behavior of latent variables on the base of factor loading. It also used to

Table 2: Sample Adequacy Test

“Kaiser-Meyer-Olkin” evaluate of data sufficiency.	.810
“Bartlett's investigation for Sphericity”	Likelihood value 1036.271
	Degree of freedom 21
	P-Value .000

Source: SPSS result, 2023

The fact that the KMO value established was 0.810, which is in the range of 0.6 to 1, shows that correlation structures are relatively tight and the data exhibited sphericity, causing factor analysis to create distinct and reliable factors. The KMO evaluates sample adequacy, and for an appropriate factor evaluation to be recognized, it must be more than 0.5.

Table 3: Total Variance Explained

constituent	“Eigen-values” preliminary			drawing out arithmetic turning round arithmetic Squared Loadings			Squared Loadings		
	sum	% of discrepancy	% of collective	Sum	% of discrepancy	% of collective	Sum	% of discrepancy	% of collective
1	3.619	51.698	51.698	3.619	51.698	51.698	1.918	27.404	27.404
2	1.040	14.850	66.548	1.040	14.850	66.548	1.835	26.214	53.619
3	1.001	9.859	76.407	.690	9.859	76.407	1.595	22.788	76.407
4	.610	8.719	85.127						

“Extraction Method: Principal Component Analysis”

Source: SPSS, 2023

Total variance was recognized by the total variance, which also established the three distinct major components. The proportion of variance accounted

check the validly issues. Structural Equation Modeling (SEM) is the data-driven approach used in this study. The existence or the lack of direct affect is assessed using the t-test, with a relevance level of 5%. The specifications for embracing or denying hypothesis evaluation are as outlined below: if the probability value is 5%, then H0 is denied, or H0 is declined, or H1 is acknowledged if the likelihood value is > 5%, then H0 is acknowledged or H1 is refused.

Competent advantage acts as mediation test is carried out employing full or partial mediation. The Baron and Kenny (1986) method was used to test mediation hypotheses. To ascertain if a third variable mediates the link among the autonomous and dependent parameter, this approach entails an assortment of regression studies.

6. DATA ADEQUACY TEST

The KMO determines the amount of data sufficiency that has to exceed in excess of 0.5 for an analysis of factors to be considered acceptable and an integer.

Employee rewards consider both incentives and recognition. Data sphericity was measured using KMO and Bartlett's Test, which revealed that KMO=0.810 was the result. As a consequence, KMO results showed that the data were adequate. The overall variation the explained result was shown in Table 3 below.

for by a principal component that is 76.407% signifies that this percentage is equal to the ratio among the discrepancy of the main component and the overall variance. Divide the overall variance by

the sum of the variances of the primary elements. The entire amount of variation that may be explained by each of the main three parts was represented by their Eigenvalues.

In theory, they may be positive or negative, but in practice, they always account for favorable variance. Eigen-values larger than zero are a positive indication. The interaction for each item was represented by the eigenvalue of the three principal components. The eigenvalue for a single component was expressed as the sum of squared component loadings over all items. The overall variance was

calculated as the sum of the Eigenvalues that were for all three elements, which came to 76.407.

6.1 Confirmatory Factor Analysis

The factor structure of a group of observed variables may be verified using a type of statistics known as confirmatory factor analysis. Using correlations among observed variables and the underlying framework, researchers may use CFA to evaluate hypotheses. CFA can be used by the researcher to evaluate the hypothesis that there is a relationship among the variables under observation and the latent concepts that underpin them (Luong & Flake, 2022).

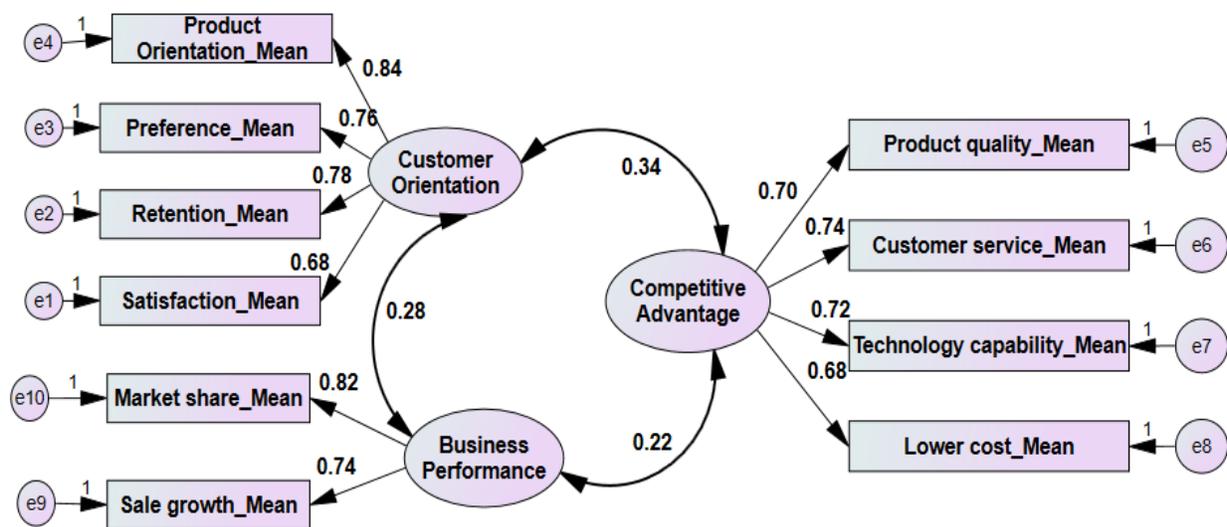


Figure 2: Confirmatory Factor Analysis

Source: AMOS result, 2023

Table 4: Co-variances

	Covariance	Estimate	S.E.	C.R.	P	Hy.
Competitive advantage <-->	Customer orientation	.299	.036	8.390	***	H2
Competitive advantage <-->	performance of business	.265	.035	7.507	***	H3
Customer orientation <-->	performance of business	.294	.037	7.876	***	H1

Source: AMOS result, 2023

According to estimates, there are 0.299 correlations among customer focus and competitive advantage. The residual of the covariance estimate, 0.299, is roughly 0.036. $Z = 0.299/0.036 = 8.390$ is derived by splitting the covariance evaluation by the residual estimate. Put another way, the covariance estimate is 8.39 standard errors above zero. The probability of reaching a critical ratio with an absolute value of 8.39 is less than 0.001 percent. In other words, at the 0.001 level (two-tailed), the correlation among Competitive advantage and Customer orientation differs significantly from zero. Under reasonable

assumptions, these claims are roughly true for large samples.

The calculated covariance among competitive advantage with company performance is 0.265. The residual of the covariance estimate, 0.265, is roughly 0.035. $Z = 0.265/0.035 = 7.507$ is obtained by scaling the covariance assessment by the projection of its residuals. The covariance estimate is thus 7.507 standard residuals more than zero. Less than 0.001 percent of the time, a crucial ratio as great as 7.507 in the absolute sense will occur. In other words, at the 0.001 level (two-tailed), the correlation among

competitive advantage with company performance differs appreciably over zero.

The calculated covariance among customer orientation and business performance is 0.294. The usual error of the covariance estimate 0.294, is roughly 0.037. $Z = 0.294/0.037 = 7.876$ is obtained by scaling the covariance calculation by the estimate of the residual of the estimate. The covariance estimate is thus 7.876 standard errors higher than zero. It is very unlikely (less than 0.001) to obtain a critical fraction with an absolute value of 7.876. In other

words, at the p-level, the correlation among customer orientation and business success is considerably distinct over zero.

6.2 Discriminant Validity

Discriminant validity is demonstrated when measurements of dimensions that theoretically shouldn't be found to be significantly associated with one another are found not to be significantly correlated with one another. Convergent validity coefficients should, in theory, be significantly higher than discriminant validity coefficients.

Table 5: Validity Concern

	CR	AVE	MSV	MaxR(H)	CO	CA	OP
CO	0.825	0.641	0.117	0.828	0.664		
CA	0.764	0.602	0.024	0.798	0.142	0.634	
OP	0.822	0.636	0.117	0.830	0.342	0.154	0.661

Note: CO= Customer orientation; CA= Competitive advantage; OP= Organization performance

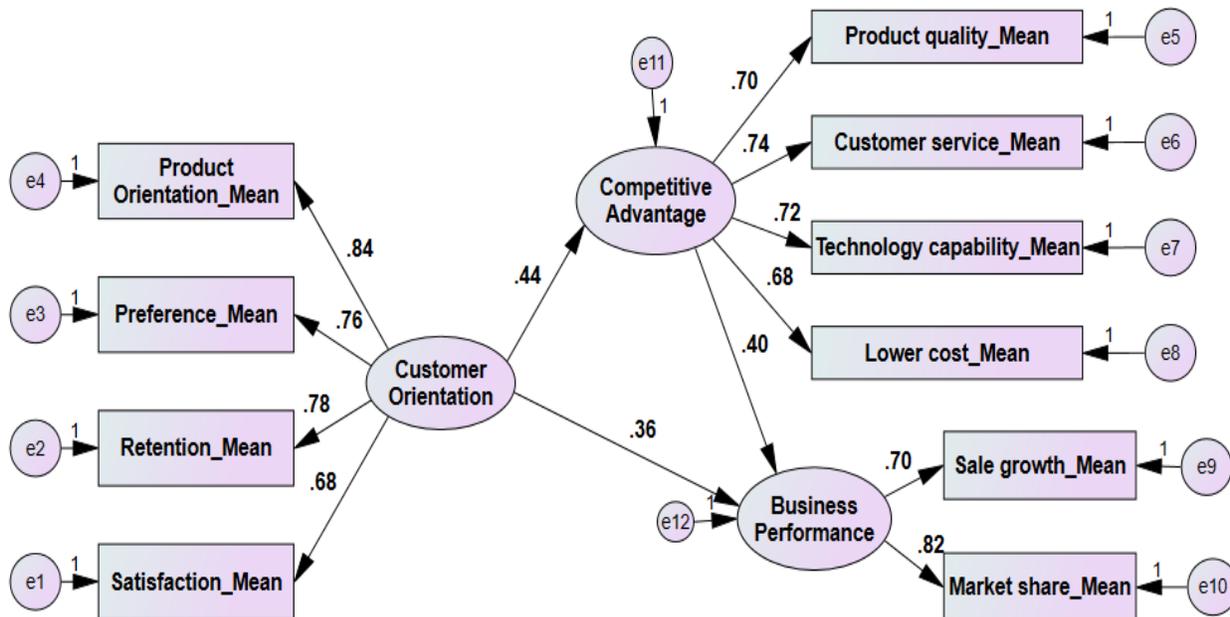
Source: Gaskination's StatWiki plug in, 2023

In table 5 validity concern it is manifested that, discriminant validity is proven because the AVE's square root is larger than all other correlation values. Since the AVE for customer orientation is greater than 0.50, convergence validity was attained. AVE

for competitive advantage is greater than 0.50; that led to convergence validity. Since the AVE for business performance is exceeding 0.50, convergence validity was attained.

6.3 Mediation Analysis

Figure 3: Equation of Structure



Source: AMOS result, 2023

6.4 Model fit indices

Table 6: indices for Model Fit

Sig.	Chi-Sq	R-M-R	Fitness Goodness	Fitness Confirmator	T-L-I	RMSEA
------	--------	-------	------------------	---------------------	-------	-------

							y
0.371	2.123	.021	0.972	0.941	0.963	.025	

Source: AMOS result, 2023

The aforementioned table's outcomes demonstrate that the CMIN/DF value of 2.213, a value that is a minimum or not more than 3, demonstrates an excellent model fit. Additionally, the root mean of the remaining is below the threshold of 0.05 by 0.021, and the goodness and comparative fit indices

are both greater than 0.90. As a result, the model's overall fit is good. The GFI for the standard design is the value that is significant here; therefore that was the primary area of attention. GFI, which is more than 0.90 and indicates the Goodness of Fit Index for the researchers' suggested Model, is 0.972.

Table 7: Influences for Regression

Relation		Approx.	S.E.	C.R.	P	Ass.
Competitive advantage	<--- Customer orientation	.977	.104	9.373	***	H2
performance of business	<--- Competitive advantage	.285	.136	2.366	***	H3
performance of business	<--- Customer orientation	1.143	.197	5.793	***	H1

Source: AMOS result, 2023

When customer orientation improves by 1, competitive advantage improves by 0.977. Roughly 0.104 is the residual of the regression weight projection, which is 0.977. By dividing the regression weight prediction by the estimated standard error, $Z = 0.977/0.104 = 9.373$ is found. Thus, the estimate of the regression weight is 9.373 standard errors above zero. A critical ratio as high as 9.373 in terms of absolute values is likely to happen just under 0.001 percent of the time. In other words, at the two-tailed 0.001 level, the regression weight for Customer orientation in the anticipated outcome of Competitive advantage is substantially distinct from zero.

	Customer orientation	Competitive advantage
performance of business	.592	.285

Source: AMOS result, 2023

Customer orientation has a 0.592 overall (directly as well as indirectly) impact on business success. This means that when customer orientation increases by 1, business performance increases by 0.592 owing to both immediate (unmediated) and secondary (mediated) benefits of customer orientation on company performance. Competitive advantage has a 0.285 overall (direct and indirect) impact on business success. That is, when Competitive advantage increases by 1, performance of business increases by 0.285. This is because Competitive advantage has both direct (unmediated) and indirect (mediated) effects on business performance.

As competitive advantage increases by 1, company performance increases by 0.285. The performance of the firm increases by 1.173 for every increase in customer orientation. $Z = 1.143/.197 = 5.793$ is derived by splitting the regression weight estimate by the computed value of its standard error. The resulting residual of the regression weight estimate, 1.143, is around 0.197. Thus, the estimate of the regression weight is 5.793 standard errors above zero. The probability of reaching a critical ratio with a numerical value of 5.793 is just under 0.001 percent. In other words, at the two-tailed significance level of 0.001, the coefficient of regression for customer orientation in the forecast of company success differs substantially from zero. Under reasonable assumptions, these claims are roughly true for huge amounts of data.

Customer orientation has an overall (directly as well as indirectly) competitive advantage impact of 0.877. That is, when Customer orientation increases by 1, Competitive advantage increases by 0.877 as a result of both the direct (unmediated) and indirect (mediated) impacts of Customer orientation on Competitive advantage.

Table 8: Mediation Analysis

	Customer orientation	Competitive advantage
Competitive advantage	.877	.000

7. CONCLUSION:

The study's main objective was to get a better understanding of how competitive advantage affects organizational performance and personnel compensation structures. Based on data analysis utilizing the AMOS programmed system, it was shown that, in the absence of a competitive advantage serving as a mediator, the link among customer orientation and organizational performance is relatively minimal in the context of a standardized

direct impact. However, due to the inclusion of competitive advantage as a mediator, the association among customer orientation and organizational performance is fairly strong in the form of a standardized total impact. The likelihood of mediation was investigated using scaling (ten thousand runs). Both tests showed that competitive advantage mediates the association among the bank performance and customer orientation. It showed that competitive advantage serves as a moderator of this connection to some extent. Consequently, in the study domain, it may be claimed that competitive advantage mediates the connection among customer orientation and organizational success.

8. MANAGERIAL IMPLICATIONS

By effectively mediating the relationship among orientation for customer and bank performance, banks can capitalize on their customer-centric strategies to drive sustainable competitive advantages. This mediation process involves aligning internal resources, capabilities, and organizational processes with the bank's customer-focused initiatives to create value for both customers and the institution. In the Ethiopian banking sector, customer orientation is essential for building strong relationships with clients, understanding their financial needs, and delivering tailored products and services. Banks that prioritize customer orientation are better positioned to gain a competitive edge by offering superior customer experiences, personalized financial solutions, and efficient service delivery. In the Ethiopian banking sector, competitive advantage can be derived from various factors such as innovative product offerings, operational efficiency, technological advancements, brand reputation, and market positioning. Banks that possess a sustainable competitive advantage are able to sustain market dominance, increase profitability, and draw in and keep consumers.

Practically, managers need to allocate resources strategically to support customer-oriented initiatives that contribute to building a sustainable competitive advantage. This may involve investing in technology, training staff members, and enhancing service delivery channels to ensure a seamless customer experience. Fostering a customer-centric organizational culture is essential for leveraging competitive advantage. Managers should promote a culture that prioritizes customer satisfaction, encourages innovation in product development, and empowers employees to deliver exceptional service. Effective performance measurement systems should be implemented to assess the impact of customer

orientation on overall banking sector performance. Key performance indicators related to customer satisfaction, retention rates, profitability, and market share can provide insights into the effectiveness of customer-oriented strategies in driving competitive advantage.

Managers should focus on differentiating their bank's offerings based on customer needs and preferences. By identifying unique value propositions and tailoring products and services accordingly, banks can position themselves distinctively in the market, thereby strengthening their competitive advantage. Given the dynamic nature of the banking industry, managers must continuously adapt their strategies to align with evolving customer demands and market trends. Flexibility and agility in responding to changing market conditions are crucial for maintaining a competitive edge.

In conclusion, understanding the mediation of competitive advantage among customer orientation and banking sector performance is vital for managers in the Ethiopian banking sector. By recognizing the managerial implications associated with this mediation process, banks can effectively harness their customer-centric strategies to drive sustainable competitive advantages and enhance overall performance in the industry.

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Data Availability Statement

Data will be provided on request to corresponding authors.

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